

RIM success in 4Q, but too early to declare win (Update)

March 28 2013, by Rob Gillies



This Tuesday, Feb. 5, 2013, shows the BlackBerry Z10 in Toronto. BlackBerry delivered a US\$98-million profit in its fourth quarter of 2012, surprising analysts who had expected the smartphone maker to report a loss as it launched its new high-end touchscreen smartphone. The Waterloo, Ont.-based company, which spent much of the quarter rolling out its BlackBerry Z10 in the United Kingdom, Canada and elsewhere, said it shipped about one million of the smartphones during the reporting period. (AP Photo/The Canadian Press, Frank Gunn)

Research In Motion Ltd., once written off as dead amid fierce competition from more modern mobile devices such as the iPhone, surprised Wall Street Thursday by returning to profitability and shipping more BlackBerry 10 phones than expected in the most recent quarter.

It will take several quarters, though, to know whether RIM is on a path toward a successful turnaround. RIM just entered the crucial U.S. market with the new phone last week. And despite selling a million BlackBerry 10 phones in other countries, RIM lost subscribers for the second consecutive quarter.

Thursday's earnings report provided a first glimpse of how the BlackBerry 10 system, widely seen as crucial to the company's future, is selling internationally and in Canada since its debut Jan. 31. The 1 million new touch-screen BlackBerry Z10 phones were above the 915,000 that analysts had been expecting for the quarter that ended March 2. Details on U.S. sales are not part of the fiscal fourth quarter's financial results because the Z10 wasn't available there after the quarter ended.

Investors appeared mostly happy with the financial results. RIM's stock rose as high as \$15.55 as trading opened Thursday after the release of results, though it saw a sharp drop in the final hour of trading and closed at \$14.45, down 12 cents.

Many analysts had written RIM off last year, but now believe the Canadian company has a future.

"I thought they were dead. This is a huge turnaround," Jefferies analyst Peter Misek said from New York.

Misek said the Canadian company "demolished" the numbers, especially its gross margins. RIM reported gross margins of 40 percent, up from 34

percent a year earlier. The company credited higher average selling prices and higher margins for devices.

"This is a really, really good result," Misek said. "It's off to a good start."

The new BlackBerry 10 phones are redesigned for the new multimedia, Internet browsing and apps experience that customers are now demanding.

The BlackBerry, pioneered in 1999, had been the dominant smartphone for on-the-go business people and other consumers before the iPhone debuted in 2007 and showed that phones can handle much more than email and phone calls. RIM faced numerous delays modernizing its operating system with the BlackBerry 10. During that time, it had to cut more than 5,000 jobs and saw shareholder wealth decline by more than \$70 billion.

In the most recent quarter, RIM earned \$98 million, or 19 cents a share, compared with a loss of \$125 million, or 24 cents a share, a year earlier. After adjusting for restructuring and other one-time items, RIM earned 22 cents a share. Analysts surveyed by FactSet had been expecting a loss of 31 cents.

Revenue fell 36 percent to \$2.7 billion, from \$4.2 billion. Analysts had expected \$2.82 billion.

RIM shipped 6 million BlackBerry devices, including 1 million on the new system. But RIM lost about 3 million subscribers to end the quarter with 76 million. It's the second consecutive quarterly decline for RIM, whose subscriber based peaked at 80 million last summer.

Bill Kreyer, a tech analyst for Edward Jones, called the decline "pretty alarming."

"This is going to take a couple of quarters to really see how they are doing," Kreyer said.

The company also announced that co-founder Mike Lazaridis will leave the company. He and Jim Balsillie had stepped down as co-CEOs in January 2012 after several quarters of disappointing results, but Lazaridis said he stayed on as vice chairman and a board director to help new CEO Thorsten Heins and his team with the launch of the BlackBerry 10. With that underway, Lazaridis plans to retire May 1. He said he has no plans to sell his 5.7 percent stake in the company.

In an interview with The Associated Press, Lazaridis said the board wanted both him and Jim to stay, but Lazaridis decided "it was the right time" to leave.

Heins, formerly RIM's chief operating officer, has spent the past year cutting costs and steering the company toward the launch of new BlackBerry 10 phones. Lazaridis said Heins has done an excellent job completing the BlackBerry 10 system and launching it around the world.

"The results speak for themselves," Lazaridis said.

Sterne Agee analyst Shaw Wu said RIM returned to profitability much sooner than expected. He said it was driven by higher gross margins, cost reductions and the sale of the new BlackBerry.

In a research note, Wu wrote that RIM "is here to stay with stabilization in its business and balance sheet" but said the key question remains whether the company can maintain momentum in an industry dominated by Apple and Google's Android software.

The Z10 has received favorable reviews since its release, but the launch in the critical U.S. market was delayed until late this month as wireless

carriers completed their testing.

A version with a physical keyboard, called the Q10, won't be released in the U.S. for two or three more months. The delay in selling the Q10 complicates RIM's efforts to hang on to customers tempted by the iPhone and a range of devices running Android. Even as the BlackBerry has fallen behind rivals in recent years, many users have stayed loyal because they prefer a physical keyboard over the touch screen on the iPhone and most Android devices.

RIM, which is changing its formal name to BlackBerry, said it expects to break even in the current quarter despite increasing spending on marketing by 50 percent compared with the previous quarter.

"To say it was a very challenging environment to deliver improved financial results could well be the understatement of the year," Heins said during a conference call with analysts.

Heins said more than half of the people buying the touch-screen Z10 were switching from rival systems. The company didn't provide details or specify whether those other systems were all smartphones. He said the Q10 will sell well among the existing BlackBerry user base. It's expected in some markets in April, but not in the U.S. until May or June.

Copyright 2013 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

Citation: RIM success in 4Q, but too early to declare win (Update) (2013, March 28) retrieved 19 April 2024 from <https://phys.org/news/2013-03-rim-1m-blackberry-10s-4q.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.