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APRIL 4, 2002

STREET WISE
By Jane Black

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Pushing into BlackBerry's Sweet Spot

The huge success of Research in Motion's handheld communicator has rivals -- from Palm to Microsoft -- racing to get a piece of its market

For Dallas-based Baylor Health Care Systems, giving 370 of its employees BlackBerry wireless handheld devices to check their e-mail was a practical on-the-job improvement. With a BlackBerry in hand, executives, nurses, and administrators also can have access to real-time lab results and patient status updates. "The more quickly you can get information to doctors, the better the quality of the health care," says Mark Johnson, Baylor's vice-president for information technology.

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The business world's desire for nearly instantaneous information has fueled the rapid growth of Research in Motion ([RIMM](#)), BlackBerry's Waterloo (Ont.)-based creator. Because of the addiction to constant connectivity the handhelds create, some fanatically loyal customers call their devices "crackberries." RIM even got the congressional seal of approval when every member of Congress was issued a

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congressional seal of approval when every member of Congress was issued a BlackBerry after September 11.

HOUNDING HANDSPRING. About 13,200 companies are now using the BlackBerry technology, which allows wireless graphical and text-based transmissions over existing cell-phone and wireless data networks. On Mar. 4, RIM rolled out a new BlackBerry model that adds voice communication, which puts the product in more direct competition with hybrid cell-phone/personal digital assistant (PDA) products such as the Handspring Treo. Some 3,800 companies have installed the BlackBerry server, allowing the handhelds to plug directly into corporate networks and applications such as Microsoft Outlook.

Result: Despite drastic cutbacks in IT spending and slower-than-expected rollouts of advanced wireless networks, RIM is expected to increase revenues by 33% in fiscal 2002, to \$294.9 million from \$221.3 million in 2001. That's a far cry from the 160% rocket shot the company's revenue growth saw in 2000, but still a strong showing considering the miserable state of high-tech spending.

If that sounds like a sweet spot for a company to be in, it is. And therein lies the rub: Rivals are rushing in faster than one can push the send button. RIM's gross margins are already falling as competitors put pressure on its prices. Worse, despite rising revenues, RIM remains unprofitable.

MASSIVE POTENTIAL. It's expected to lose the equivalent of 13 cents a share in fiscal 2002. That cuts against the grain of the current environment, in which profits are key. Should RIM report any more bad news, its shares -- trading at around \$28, off a \$40.80 52-week high -- could suffer.

Just how big is RIM's potential market? The company has 289,000 users, but RIM Co-CEO Jim Balsille has estimated that between 10 million and 15 million mobile professionals worldwide are now using or will need mobile data access.

With its current list of subscribers, RIM has about 30% of the existing market, according to J.P. Morgan Chase H&Q analyst Paul Coster. And the market is growing quickly. In fiscal 2003, RIM is expected to rake in \$451.6 million in revenues, up 53% from 2002. If it can hang onto its market share, RIM eventually should sell up to 2.5 million units per year until 2005 and provide service to 5 million subscribers on a continuous basis, says Coster.

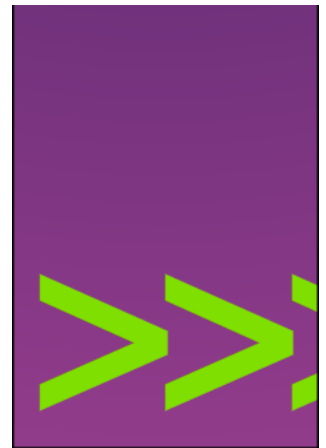
MICROSOFT IN THE MIX. Sounds impressive. However, many analysts caution that such growth is already priced into the stock. And RIM could have a hard time defending its share, let alone grabbing a larger slice. For one thing, Microsoft is determined to move into wireless e-mail. The Redmond (Wash.) software giant introduced a new version of its PocketPC operating system that allows device makers such as Compaq to offer wireless data access over cell-phone networks on their handheld computers.

For the back end, Microsoft is shipping a new server product called Mobile Information Server (MIS). This software allows PocketPC 2002 devices to sync with Microsoft's Exchange collaboration software, permitting users to access e-mail, and calendar and contact information. In short, MIS competes directly with RIM's BlackBerry server and has the advantage of Microsoft's marketing and sales muscle.

Just how serious is Microsoft? Its mobile data team now reports directly to CEO Steve Ballmer. In 2003, the company plans to spend \$200 million on mobile data applications.

WIRELESS WAVE. New wireless data devices from Nokia and PDA makers Palm ([PALM](#)) and Handspring ([HAND](#)) also are flooding the market. Handspring's Treo is a phone with a QWERTY keyboard, like BlackBerry's, that makes it simple to bang out an e-mail from the road (see BW Online, 3/14/02, [Will Investors Spring for Handspring?](#)). Palm's i705 still requires users to write with a stylus but, as with BlackBerry, it offers always-on, wireless e-mail access through its Palm.net service.

Like Microsoft, Palm and Handspring are working to offer server software that will mimic RIM's. In December, Palm acquired ThinAirApps, a privately held software company that provides always-on messaging similar to BlackBerry's. About 1,000 companies already have installed ThinAirApps software, a good starting point for breaking into the lucrative corporate market.



The competition is weighing on RIM. In its third quarter ended Dec. 20, it reported gross margins of 37.4%, down from 38.7% in the previous quarter. Fourth-quarter margins will slide to 36%, according to J.P. Morgan's Coster, who worries that the number could fall again by the end of 2002.

"EMBRACE AND EXTEND." The \$400 selling price for BlackBerry has held up well, but analysts expect competition to force lower prices. RIM looks increasingly vulnerable should that happen, since its revenue flow is becoming more dependent on BlackBerry devices and service, which in 2002 accounted for 74% of RIM's total sales. The figure is expected to rise to 87% in fiscal 2003. Company executives declined to comment for this article. RIM is in a "quiet period" before an earnings report on Apr. 9.

Despite the uncertainty, RIM remains a company to watch. BlackBerry is one the most recognizable brand names in this market. And RIM has garnered plenty of partners with its "embrace and extend" strategy, which values compatibility over exclusivity. For example, BlackBerry works over both the Microsoft Exchange and Lotus Notes corporate e-mail systems. That means a broader market.

RIM is taking the same approach by partnering with numerous wireless carriers to sell BlackBerry devices and service. It has deals with 12 carriers, including Cingular Wireless, Nextel, AT&T Wireless, and VoiceStream, as well as European carriers mm02 (formerly BT CellNet) and T-Mobil. On Mar. 26, RIM announced a deal with Hong Kong-based wireless carrier Hutchison Telecom.

"ON THE MOVE." "The environment is punishing for carriers right now, and yet this is a company that's getting \$30 million to \$40 million deals done on a next-generation product. It's clear this company is on the move," says Rob Sanderson, an analyst with Banc of America Securities, who has a strong buy rating on RIM's stock.

Investors should get some idea of RIM's status when it reports quarterly earnings on Apr. 9. The analysts' consensus on the stock remains a lukewarm buy. At \$28, it's trading at close to the consensus 12-month price target. The upshot? RIM has a great product and is the name to beat, but at the current price, investors may be looking at more downside risk than chance for upside gains.

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