

ANALYSIS

RIM — why it continues to defy gravity

By Sunil Vidyarthi



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I'm the first to admit that stocks like **Research In Motion Ltd.** (RIM-TSX, \$129.75, 519-888-7465, www.rim.net), with its volatility and high trailing price-to-earnings ratio, make investors uneasy.

But given what is happening in the markets these days, and what is happening in the corporate boardrooms, perhaps we should be more worried about the old-style investing strategies.

You know the ones I mean — trying to get to know management, listening to analyst research or paying attention to well-meaning independent journalists.

It has become clear since 2000 that trusting in most managers and analysts may be a big mistake, and journalists only report what they are told.

Am I suggesting that RIM is also one such company which is being hyped by the management, touted by the analysts and overdone by the journalists?

Curiously, that may not be the case, in spite of the huge run-up in its stock price.

The principals appear to be the most well-meaning of entrepreneurs donating regularly to their favorite charity, the University of Waterloo. They cannot be blamed for what you and I are doing to the stock price.

Maybe there is another explanation for this stock market phenomenon called RIM. Maybe people buying the stock are smarter than those who are still sitting on the sidelines, rolling their eyes and exclaiming how unbelievably pricey things have

become.

They have been saying this since the last split, a secondary offering and a stock price in the teens. Well, we can't do much about what has already happened. We can only look at what we

have now and where the company is going.

And that's where things don't look so bad. In fact, it's downright amazing how this little company is outdoing most in the wireless space.

The secret, in my view, is the control the company has over what seems to be the plain old wireless phone technology and the user friendliness of that technology.

So far, RIM's technology is on track to beat most wireless systems on the market. And, as this chasm grows, it will become more and more difficult for competition to catch up. In fact, it may already be too late. At least that is what investors who are willing to buy this stock at \$130 think.

So, what is RIM? It started out as a two-way pager company about a decade ago, struggled for a while before people warmed up to the product idea and then something called the Internet took hold.

The product known as BlackBerry was ready for this new mode of communication, as were the inventors with their business plan to dominate the scene. Not that there was little competition, but they were all going after the common and popular segments.

Phone companies were after cellphones, while device companies like Palm, Apple, Compaq and Microsoft were after the even smaller PC market. It is easy to say now that RIM found the niche

everyone missed.

While competition intensified in the tried-and-true segments, RIM's focus on just the messaging really solved the only problem that needed solving.

How many of us needed a little device with uncomfortable screens and keys to type our memos on (word processing) or count our chickens on (spreadsheet) while on the road? And do I really want to pay \$500 to carry a smart phone book?

A phenomenon

But give me a device that I can clip on to all my salesmen and key employees so that I am in constant and reliable communication with them, and you have given me a real productivity tool.

Today, RIM describes itself as a designer, manufacturer and marketer of wide-area wireless solutions for the worldwide mobile communications market.

Through the development of integrated hardware, software and services that support multiple wireless network standards, the company provides platforms and solutions for seamless access to time-sensitive information including e-mail, phone, short message service (SMS) messaging, Internet and intranet-based corporate data applications.

RIM also licenses its technology to handset and software vendors to enable these companies to offer wireless data services using the BlackBerry Enterprise Server. There are in excess of 10,000 companies worldwide with the BlackBerry Enterprise Server installed.

The question is, what next? Is this already an old story, a bubble stock about to burst? I don't think

so. Pay attention to the deals the company is making with what would've been considered competition just a few months ago. There is capitulation going on in this technology space.

All communicators now want the Berry technology and are willing to give RIM a licensing fee. The company is busy writing the definitive standard in the wireless communication space for adults.

Sure, kids will want the camera phone and fancy jingles, but serious boys need that control, and RIM gives them just that.

As for stock price, how would you like to own a company that keeps beating most expectations? That's what is called a momentum play. Analysts now expect the company to make over US\$3 a share next year, and that makes the stock's price-to-earnings ratio 30 times. Is that high for a company which in the fiscal year ended Feb. 28 had revenues rise 94 per cent to \$594.6 million?

Net income totalled \$51.8 million versus a loss of \$148.9 million.

If you own RIM, you don't get off until the momentum is broken. If you don't own it, get off the sideline and participate in a phenomenon that may be one of the biggest tech stories of the decade.

Or you could wait until people think it has blown up like many other techs and then buy it.

You may ask me why I didn't tell you to buy this stock when it was \$20. All I can offer in defence is that no one in their right mind would have believed that RIM could make US\$3 a share. Now many do.

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