

RIM Is Generating Cash by Shrinking the Company

RIM reported poor operating results on Thursday, Dec. 20, with revenue down 47% year over year, Blackberry shipments down 51% year over year to 6.9 million units and its subscriber base shrinking for the first time from 80 million to 79 million users. RIM did generate \$958 million in operating cash flow in the November quarter but a large amount was driven by lower inventories. Cash flows need to be viewed over a multi-quarter or multi-year timeframe. For the past nine months or the first three quarters of fiscal 2013 RIM has lowered its accounts receivables by over \$1 billion and its inventory by \$570 million. These are driven by lower sales, which is not a sustainable way of creating cash flows.

Balance Sheet [1] (\$ mil)		Feb.
Account Receivables (AR)		\$4,270
Inventories		\$618
Total [2]		\$4,888

Account receivables could still be a source of cash in the short-term but either sales will increase (which would increase AR and be a use of cash and a good situation for the company)

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Published on Wireless Design & Development (<http://www.wirelessdesignmag.com>)

or if sales don't increase eventually AR will flatten out and not be a source of cash. With

inventories under \$500 million and the upcoming launch of the BlackBerry 10 I would expect

inventories to rise and be a use of cash vs. a source. The following table shows how AR and

inventories have been a source of cash in fiscal 2012 and the first nine months of fiscal 2013.

Cash Flows (\$ mil)

Account Receivables

Total Inventories

The last table takes the company's operating cash flow and subtracts the positive impact from

accounts receivables and inventories and incorporates capital expenditures and acquisition of

intangible assets. I believe this is a better indicator of the company's cash generation. For

both time periods RIM has actually been using more cash (over \$500 million) than it generates

from operations.

<u>Adjusted Free Cash Flow</u>	<u>Fiscal 2012</u>	<u>9 months</u>
Operating Cash Flow	\$2,912	\$2,093
Account Receivables (AR)	(\$730)	(\$1,007)
Inventories	\$409	(\$572)
Capital Expenditures	(\$902)	(\$325)
Acquisition of intangible assets	(\$2,217)	(\$770)
Adjusted Free Cash Flow	(\$528)	

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December 24, 2012

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