Is It Time For Blackberry To Throw in The Towel?

Description

It might sound odd, but **Sears Canada** (TSX: SCC) and **BlackBerry** (TSX: BB, NASDAQ: BBRY) are actually similar businesses. Both compete in hyper-competitive markets. Both are losing relevance in their respective industries. Yet both stocks are trading at *opposite* ends of their 52- week price range. Why the dichotomy?

How to manage a declining business
Picture yourself as the head of a troubled company. Your firm's business model, which has served you well for decades, is now painfully out of date. The operation is bleeding customers and market share. In this situation, you have two choices:

First, you could attempt a turnaround. Invest billions of dollars into store renovations or research and development hoping to reignite sales. Though in reality, the probability of success is slim to none.

Second, you could give up. Milk the brand for whatever its worth. Cut all investment and slowly sell off valuable assets. Liquidate the company by paying off shareholders with hefty dividends.

Sears bowing out gracefully
Sears Canada has made it clear that they are choosing the later. Over the past few months the company has raised almost $400 million selling off its valuable real estate leases. The proceeds will be used to pay shareholders a special $5 per share dividend.

Head honcho Eddie Lampert has signaled that he intends to cut back on investment to squeeze as much cash as he can out of remaining stores. While some may see this as management running the company into the ground, it's actually the right strategy from a shareholders' perspective.

Of course, don't expect to hear this directly. Sears' official position is to turnaround the organization. And maybe the company will find profitability with a smaller store footprint. But reading between the lines, there's not much to suggest that's the case. I wouldn't be surprise to see Sears exit Canada altogether.

Sure, the company could attempt a turnaround. But why spend billions on a reorganization that will most likely fail? The Canadian retail landscape is becoming increasingly competitive with American brands like **Target**, **Walmart**, and Saks Fifth Avenue setting up shop. Sears' department store business model is out of date. Those are hard problems to fix.

Bowing out gracefully is a better proposition for shareholders. Management understands that reality and isn't flushing good capital down the drain on a long-shot comeback. That's why the stock is at a 52-week high.

BlackBerry needs to do the same
In contrast, BlackBerry has opted for the former of the above choices. **Fairfax Financial** boss Prem Watsa and his consortium of investors have lent the company $1 billion to buy it time. New Chief Executive John Chen will try to engineer some kind of turnaround. But it's apparent to investors that this is just sending good dollars after bad.

BlackBerry has had a pretty good run. But its glory days are most likely long past. The company's core technology has lost almost all of its market share to Android and iOS. These platform, with their more open operating systems and rich app ecosystems, represent competitive moats that will be difficult to overcome.

Perhaps BlackBerry can stop the bleeding and find some sort of niche in the smartphone space. But what then? A tiny piece of a low-margin, highly competitive business fighting for survival against behemoths like **Apple** and **Google**?

In contrast, an orderly liquidation makes far more sense from a shareholder perspective. Currently the company has a market capitalization of about $3 billion. Selling off the company peice-by-peice (patents, service business, operating system, BBM, cash, etc) could probably fetch $5 billion to $6 billion altogether.

No single buyer wants to takeover the entire business. But the sum-of-the-parts may be worth more than the whole. And a liquidation would save investors billions in cash investments that might amount to nothing.

Unfortunately for shareholders, management has taken this option off the table. That's why the stock is trading at a 52- week low.

Foolish bottom line
Sears has accepted its fate and is scaling back operations. BlackBerry continues to throw good money down the drain. That's why these two stocks are trading at opposite ends of their 52- week price range.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)

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