



BlackBerry CEO Indicates Analysts are Doing It Wrong

Description

We already knew the folks at **BlackBerry** ([TSX:BB](#)) had plenty to prove at the company's annual meeting Tuesday, thanks largely to its posting a dismal earnings report two weeks ago that resulted in a one-day drop of more than 27%.

To its credit, the struggling smartphone maker did let investors know the surprise miss primarily happened thanks to foreign currency restrictions in Venezuela, which negatively affected both its GAAP and adjusted earnings to the tune of \$0.10 per share.

Unfortunately, however, just 2.7 million of the 6.8 million total smartphone units shipped were equipped with the company's BB10 operating system, or far below consensus analyst estimates of between 3 and 4 million BB10 handsets.

Adjusting our expectations ... downward

Going back to Tuesday's shareholder meeting, though, this is also why we shouldn't be particularly surprised that BlackBerry CEO Thorsten Heins told investors the business has become "difficult to forecast" with regard to many of the typical smartphone-related metrics analysts have grown accustomed to using with more dominant smartphone players such as **Apple** and Samsung.

More specifically, Heins went on to elaborate:

With little visibility in these items, expectations in areas that the company could not guide were significantly higher than the company could have achieved. While many will judge our short-term success on unit sales in a single quarter, we are not a device-only company, [and] creating value for shareholders does not involve being everything to everyone.

In short, Heins effectively told the market: "You're doing it wrong."

The thing is, this offers little consolation for BlackBerry shareholders who note that 71% of the company's revenue came from hardware last quarter, and who rightly covet some form of transparency while the company is smack-dab in the middle of its self-described "three-stage plan" to transform itself.

But remember, though Heins rightly asserts BlackBerry isn't a device-only company, remember its competition isn't, either.

Sure, the Apple crew did sell 37.4 million iPhones and 19.5 million iPads last quarter alone, but they also pulled in more than \$4.1 billion in sales from their iTunes, software, and services segment last quarter as well. In the end, all that hardware and supplementary digital goods helped drive a *quarterly* net profit of \$9.5 billion for Apple last quarter.

The plan

But while selling hardware to build out a solid supplementary services biz works well for Apple, BlackBerry still insists it can create shareholder value without achieving immediate growth in those all-important BB10 smartphone sales.

Getting back to the aforementioned three-phase plan, then, the first phase (according to Heins) has already been completed and involved launching the BlackBerry 10 operating system and restructuring the business and workforce. Remember, that latter restructuring included 5,000 layoffs last fiscal year in an effort to reduce costs.

The second phase, which Heins claims the company is "just starting now," involves a plan to "build and invest in the future." More specifically, that entails growing the company's enterprise services, BlackBerry Messenger platform, and launching additional BB10-driven devices. What's more, without clarifying further, Heins says this stage will also involve a focused pursuit of "vertical specific opportunities."

Finally, the third phase includes driving profits from the results of the first two phases, which will be a tall order considering the intense competition BlackBerry finds itself facing.

Foolish takeaway

For now, remember BlackBerry did manage to generate cash from operations of \$630 million last quarter, and it still held cash and investments of \$3.1 billion at the end of June. This buys them time to figure it out.

That said, BlackBerry also forecast continued operating losses during its fiscal second quarter, which is why Heins was left pleading with investors at the meeting to maintain their positive long-term outlook for the business.

In the end, it's unsettling to me that no one — not even BlackBerry's own management team — knows exactly how to gauge the long-term effectiveness of BlackBerry's turnaround efforts. Until BlackBerry can manage to provide some level of tangible, predictable progress, that's why the stock remains too risky a bet for my taste.

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Fool contributor Steve Symington owns shares of Apple. David Gardner owns shares of Apple. The Motley Fool owns shares of Apple.

CATEGORY

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TICKERS GLOBAL

1. TSX:BB (BlackBerry)

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