



Mixed Messages for BlackBerry

Description

The *Globe and Mail* is reporting that **Fairfax** ([TSX:FFH](#)) has submitted a draft of its takeover agreement for **BlackBerry** (TSX:BB, NASDAQ:BBRY). The paper even goes so far as to indicate that there may even be a competing bid swimming around out there.

In stark contrast to the *Globe*, after pouring through the company's release earlier this week, U.S. research firm Bernstein is out with a piece that indicates only a small-f fool would be interested in this battered firm.

The following are some of the high level items from the Bernstein report that caught this Fool's attention about the state of BlackBerry:

- Bernstein estimates the firm lost 3M users this quarter and is set to lose 7M more next quarter.
- In Bernstein's eyes, BlackBerry has a previously misunderstood, yet highly significant exposure to multi-year licensing agreements. This will result in significant cash outflows to IP owners in the coming quarters and means there is a sizeable liability that doesn't currently appear on the company's balance sheet.
- Working capital was manipulated throughout the last quarter at an unsustainable rate, especially when it comes to receivables.
- Enterprise adoption has been weak. 23,000 BB10 servers have been deployed, but these are only test cases and likely to result in a relatively small number that turn into actual users.

What these items boil down to, in Bernstein's opinion, is that BlackBerry is set to burn through \$1.9 billion of cash in the next 18 months. That would effectively wipe out their current cash balance and leave the firm in a precarious financial situation. This kind of scenario significantly diminishes the possibility that a potential acquirer could secure a bank loan of any magnitude to finance a transaction and therefore makes the possibility of a buyout by a financial player very slim, especially at \$9/share. Therefore, Bernstein sees a strategic buyout from an existing industry player as the only possible "upside risk" to this story.

The Foolish Bottom Line

Until recently, BlackBerry had managed to escape the dreaded financial risk. Business was bad and getting worse, but the company's finances have remained relatively buoyant. This of course can only last so long, and even if a buyout does occur, potential acquirers appear to be stepping in front of a train on its way to nowhere-ville.

Looking for more expert advice?

The Motley Fool Canada's senior investment analyst just unveiled his [top two stock ideas](#) for new money now. And **YOU** can be one of the first to read his buy reports — just [click here](#) for all the details.

Fool contributor Iain Butler does not own any shares in any of the companies mentioned. The Motley Fool does not own shares in any companies mentioned.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date

2025/06/27

Date Created

2013/10/03

Author

tmfohcanada

default watermark

default watermark