



## BlackBerry Continues to Unlock Value

### Description

Shares in **BlackBerry** ([TSX:BB](#))(NASDAQ:BBRY) had a nice — albeit temporary — pop on Friday morning as the company announced an agreement with an unnamed buyer to sell 3 million square feet of buildings and vacant land in Waterloo, Ontario.

The company still plans to have its headquarters in Waterloo, and has agreed to leaseback some of the space. No price was announced since there are still contingencies, but the company expects the deal to go through.

Many Canadian companies are taking the opportunity to unlock real estate value. Low interest rates mean cheap financing for buyers, and they also mean buyers are willing to except lower cap rates. Investors are hungry for predictable yields, especially institutional investors and pension funds. Many of Canada's largest retailers are even spinning out their real estate assets into separate REITs, enjoying the unlocked capital while holding enough to maintain control.

BlackBerry CEO John Chen made unlocking real estate value a priority in 2014. The company already sold its U.S. headquarters in Irving, Texas, for an undisclosed amount, to **Brookfield Property Group**. The company agreed to lease a portion of the headquarters back.

BlackBerry's balance sheet values its real estate at \$1.3 billion, or about \$2.50 per share. Assuming the company sold \$1 billion of that total, plus the additional \$3 billion the company already has in cash, and BlackBerry is looking at around \$8 per share in cash. That's almost 80% of its \$10.30 share price.

BlackBerry has other pieces with value. The company values its intellectual property at \$1.3 billion as well, which is mainly patents bought from Nortel during its bankruptcy. If the company could manage to sell its patents for \$1 billion, BlackBerry's market cap and cash level would be pretty much the same. You'd be getting the company for free.

BlackBerry still has BlackBerry Messenger (BBM), a secure service customers can use to message each other. It's very similar to WhatsApp, the company **Facebook** recently paid \$19 billion to acquire. Yes, WhatsApp has many more users than BBM, but that doesn't mean BBM is without value. Facebook paid \$42 per WhatsApp user. Even if each BBM user is only worth \$10, that's an additional

value of \$800 million, or about \$1.50 per share.

BlackBerry has also been selected to supply **Ford** with the newest version of Sync, the in-vehicle integrated entertainment and communications system. The company's software, QNX, is steadily becoming the gold standard for in-vehicle entertainment systems. While BlackBerry doesn't disclose just how much revenue comes from QNX sales, there's little doubt that the market for infotainment systems will continue to be robust. Just about every new vehicle comes equipped with one.

Oh, and BlackBerry also makes phones. After stumbling with too much inventory in 2013, its agreement with Foxconn will ensure inventory levels don't get out of hand again. It has introduced a couple of new models, one which caters to the business market and the other a value-priced phone aimed at the developing world, where most people just can't afford the latest **Apple** phone. BlackBerry is still strong in developing markets, and the company is doing a nice job to continue to focus on those customers.

### **Foolish bottom line**

CEO John Chen is doing a terrific job with BlackBerry's turnaround. Selling the company's real estate is a nice move to raise cash, and the worst in write-offs should be behind it. There's plenty of cash, the potential to sell other assets, an interest growth play in QNX, and a handset maker that still sold more than 10 million phones in 2013.

If it can manage to raise \$1 billion in asset sales, the company will have almost 80% of its market cap in cash. At that point, investors would get all these interesting pieces at a steep discount.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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