Will BlackBerry Ltd. Ditch Hardware Altogether?

Description

The struggles of **BlackBerry Ltd.** (TSX:BB)(NASDAQ:BBRY) are well documented. After peaking at 20% in 2009, the company's smartphone market share has fallen to just 1%. Failing products resulted in crumbling financials. Since 2011 revenues are down 70% with profits swinging to a loss.

Management has been attempting a turnaround for years, and still shares remain under $10. But instead of fixing a deteriorating business, should BlackBerry ditch hardware altogether?

Cut the fat

While hardware is in the DNA of BlackBerry, it looks like it's time to admit defeat. The company's latest smartphones have continually been disappointments and are expensive to continue developing. Over 65% of BlackBerry's research and development expenses are related to hardware. By ditching a money-losing business that is a significant drag on cash flows, BlackBerry could stage a turnaround in a matter of months, not years.

Cormark Securities analyst Richard Tse is a big proponent of this strategy: "BlackBerry remains deep in the midst of a herculean transition away from its hardware roots into enterprise software," he said. "In our opinion, the positive takeaway continues to be that the company's restructuring prowess has given it a financial footing to execute on that transition. Moreover, we believe there could be even more financial and operating flexibility should the company shut down its hardware business altogether."

The remaining business would be very attractive

Even if BlackBerry could get *nothing* in return for its hardware segment, the company would still have $4.35 per share in cash, nearly half of its market cap. Without the cash drag of hardware, it would be free to direct huge amounts of capital to strengthen its software initiatives.

Its software and related services (which help manage and secure enterprise mobile networks) are already gaining traction. Last quarter it brought in revenues of $162 million, up significantly from $74 million the previous quarter. Not only are these sales higher margin than hardware, but 70% of it was recurring, meaning BlackBerry can count on these sales next quarter as well.

Will BlackBerry make a move?

A growing number of analysts and activists are calling for BlackBerry to shift completely away from hardware. Richard Tse gives it "more than 50% odds over the next 12-18 months."

Unfortunately, the *Wall Street Journal* disagrees: "Although BlackBerry is largely betting on its software and services business to reignite growth, it remains committed to the sale of devices even though that division commands less than 1% share of the global smartphone market."

If a true turnaround is to be achieved, management had better come to terms with ditching its hardware segment.

CATEGORY

1. Investing
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TICKERS GLOBAL

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