



## Is BlackBerry Ltd. a Buy on 4th-Quarter Results?

### Description

**BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY) announced its fourth-quarter results on Friday and, as could have been predicted, the stock got hit hard because the company missed analysts' predictions for revenue. BlackBerry had said it would see "sequential revenue growth in our software, hardware, and messaging businesses," but the company's predictions were missed as well.

The primary driver for missing revenue was its hardware business, as we all know to be a problem. In the second quarter, the company sold 800,000 devices. In the third quarter, that dropped to 700,000 devices. In this quarter, the company announced that it had only sold 600,000 devices. John Chen, CEO of BlackBerry, said that the numbers would have been greater had it not been for delays by **Verizon Communications Inc.**

BlackBerry saw a year-over-year reduction of 33% in revenue from its hardware division from US\$274 million in Q4 2015 to US\$184 million in this quarter. While the company has realized that it needs to focus on Android only, it appears that the CEO recognizes that time has run out. While he still believes hardware can be profitable by September, he knows that the company will need to become a straight software play.

The good news for BlackBerry is that its software business is experiencing tremendous growth. Its software and services business saw revenues increase by 76% to US\$130 million year over year, which is a sizable improvement. While this wasn't enough to offset the pain in the hardware business, this trend reiterates the thesis that BlackBerry should become a pure software play.

According to the company, 70% of the fourth quarter software revenue was recurring, which gives the company a level of predictability. Further, according to the press release, "BlackBerry had over 3,600 enterprise customer wins in the quarter."

Yet, none of this is worth anything if the company is stuck in its hardware rut. And, more importantly, investors have to ask themselves if they should consider buying shares of this stock.

I'm a bit of a contrarian when it comes to investing. Therefore, I believe that the negativity around BlackBerry is a bit unwarranted, and there are a few reasons for that.

The company has a cash and investments balance of US\$2.62 billion. In other words, the company is not going anywhere anytime soon. As one investor once told me, the only way a company fails is if management gives up or the company runs out of the money. More importantly, investing in BlackBerry gives you a comfortable support because you know the company has so much cash, so it's not likely going to zero.

But more than that, the moves BlackBerry is making (except in hardware) are the right ones. It's expanding its Internet of Things operations through a new QNX software platform. It launched a cyber-security consulting service and bought Encryption Limited to speed up those efforts. And, lest we forget, BlackBerry is known for its security, which puts it in a solid position to find new enterprise clients outside its hardware business.

My belief is that the company will start appreciating in value when hardware become profitable or when it gets rid of the hardware division. Both scenarios are likely to make investors very happy. The only negative is that BlackBerry may grow resistant to getting rid of its legacy hardware division. So long as it sticks to its promise, this is a smart investment.

## CATEGORY

1. Investing
2. Tech Stocks

## TICKERS GLOBAL

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

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