



BlackBerry Ltd.: It's Time to Get Out of the Phone Business

Description

It's been a long and painful decline for **BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY) and its shareholders. There's no need to rehash the story; we all know what happened.

To the company's credit, it hasn't stopped fighting. In 2013 it announced the release of its much-awaited new operating system, BlackBerry 10. This operating system combined with slick new phones was supposed to be the combination the company really needed to take on the two behemoths in the sector.

Once it became obvious the BlackBerry 10 devices weren't going to be a smash hit, the company still kept hope alive. It made moves to alleviate some of its customers' biggest issues, like giving them access to **Amazon's** Android app store after many developers stopped making apps for BlackBerry's operating system.

And most recently, it released the Priv, a device that was powered by an Android operating system. Many people reported that Priv sales were initially brisk, but the enthusiasm didn't stay for long. In its most recent quarter, the company reported approximately 600,000 new handset activations compared to 700,000 in the quarter preceding that. Even if the Priv did well, it still wasn't enough to stem the tide.

To his credit, BlackBerry's CEO John Chen is very aware of the writing on the wall. He recently told reporters his company would get out of the phone business if "markets and the mathematics" made such a move obvious.

Most investors are blissfully unaware of just how bad BlackBerry's phone business really is. Chen is openly musing the hardware division might be shut down as early as September if the company can't come up with an interesting and innovative device.

Chen said the company needs to sell approximately three million new devices a year to make a profit. Even if the company can maintain its pace of 600,000 units per quarter—which is unlikely considering that the most recent quarter includes the important holiday season—it'll come up well short of the goal.

The good news

Getting out of the handset business sounds like bad news. Most non-investors aren't even aware of BlackBerry's software business, and many investors aren't aware of how lucrative software really is.

In its most recent quarter, the company announced software and services revenue of US\$153 million, an increase of 106% compared with the same quarter a year ago. This was due to a couple of acquisitions it made in the space.

BlackBerry is also sitting on US\$2.6 billion in cash, money which will likely be used to make further acquisitions in the software space.

There's also BlackBerry's potential to use its treasure trove of patents to its advantage once it gets out of the handset business.

As it stands right now, the big players in the business are constantly infringing on each other's patents. They don't do anything about it because each of them knows if they sue a competitor, a competitor will sue them right back.

If BlackBerry gets out of the phone business, that will leave it free to sue its competitors without fear of repercussions. According to one analyst, this could translate into some US\$400 million in profits just from royalty payments alone.

Even if we assume only US\$200 million in profits, that would still translate into an improvement in the bottom line of approximately \$0.40 per share. That's a huge boost for a company that still needs help to get to consistent profitability.

With shares of BlackBerry down more than 25% over the last 52 weeks, I'd say it's time for the company to try shaking things up a bit. There's no better place to start than getting out of the phone business.

CATEGORY

1. Investing
2. Tech Stocks

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