BlackBerry Ltd.: The Last Stand

Description

It's been a wild ride, but it looks like **BlackBerry Ltd.** (TSX:BB)(NASDAQ:BBRY) is ready to admit that since 2007, its business has been a complete failure.

After peaking at 20% in 2009, the company's smartphone market share has fallen to just 1%. Failing products have 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.

Last week, however, BlackBerry released some news that may finally signal a change from its historically terrible strategy.

Image not found or type unknown
generate_fund_chart

Hardware is done

BlackBerry has sunk billions into its hardware segment for years to no avail. Only a few months ago, the *Wall Street Journal* wrote that the company "remains committed to the sale of devices even though that division commands less than 1% share of the global smartphone market." At the time, CEO John Chen shrugged off past failures, believing the company still had a shot at succeeding. "Hopefully, I'm not naive," he said.

Today, a growing number of analysts and activists are calling for BlackBerry to divest its hardware business as soon as possible. Its latest attempt at a smartphone, the BlackBerry Priv, needed to sell about three million units for an average price of about $300 to break even. Last quarter, the company sold 600,000 units of *all* phone models, well below *Wall Street's* 850,000 expectation and the 700,000 devices BlackBerry sold in the previous quarter. The company doesn't break out Priv sales separately, but unit sales are likely disappointing.

BlackBerry's CEO said previously that if smartphone sales continue to disappoint, he would consider exiting the hardware business. "I will let the math and the market tell me that," he said.

On April 28, the company appointed a new phone division sales chief, Alex Thurber. The company says he will be responsible for BlackBerry's in-house hardware sales teams, as well as its efforts to boost distribution via carriers and other partners. "My focus is to achieve BlackBerry's strategic priority in making the device business profitable," Thurber said.

More likely, however, the new sales chief will oversee the company's exit from smartphones. Not only have BlackBerry's smartphones been disappointments, but they're also expensive to continue developing. Over 65% of BlackBerry's research and development expenses are related to hardware.

Meanwhile, BlackBerry's software segment (which helps manage and secure enterprise mobile networks) is starting to gain traction. Last quarter it brought in revenues of $153 million, up 106% over the previous quarter. Not only are these sales higher margin than hardware, but 70% were recurring, meaning BlackBerry can count on these sales next quarter as well.

For BlackBerry, the high incentives to exit hardware altogether are making it an inevitability.

Don't play the rebound

While BlackBerry likely has the financial backing to complete a full evolution, the new company will almost certainly be drastically different. If you invest in BlackBerry stock, you're betting on a future that's very difficult to predict. The upside could be huge, however. If you're looking for a solid home-run pick, check out our latest "double down" stock below.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Tech Stocks

Date
2025/08/26
Date Created
2016/05/03
Author
rvanzo