



BlackBerry Ltd. Is Refusing to Accept Reality

Description

According to **BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY) CEO John Chen, hardware is the company's number one priority this year. "It's time for us to get to the profitability ... we've got to get there this year," he said. Shrugging off past failures, Chen still believes the company has a shot at succeeding. "Hopefully, I'm not naive," he added.

Good luck with that.

Hardware is already dead

If BlackBerry's smartphone sales continue to disappoint this year (a good bet), John Chen said he would consider exiting the hardware business. "I will let the math and the market tell me that," he said. "The device business must be profitable; we don't want to run a business that drags on the bottom line," he added this week.

Unfortunately, both math and common sense indicate that BlackBerry's hardware push is already dead. Since 2011 BlackBerry's smartphone market share has shrunk from over 20% to under 1%; nearly all of BlackBerry's latest smartphones have been disappointments. Additionally, they're expensive to continue developing; over 65% of BlackBerry's research and development expenses are related to hardware.

With BlackBerry posting a \$238 million loss last quarter and another loss expected this quarter, BlackBerry really doesn't have a choice; it has to shed its hardware business. At the company's latest investor meeting, Chen asked about BlackBerry's lack of marketing for its latest phones. He responded that the company simply couldn't afford it.

Turning a flagging business profitable without dedicating the necessary capital is a failure waiting to happen. On a positive note, BlackBerry actually looks fairly strong without its hardware segment.

This is the future

Even BlackBerry's CEO knows software is the future. "I personally do not believe devices are going to

be the future of any company,” he reportedly said. What’s left then?

This year BlackBerry is trying to grow its software segment by 30%—a stark contrast against sliding sales elsewhere. This software segment, which helps manage and secure enterprise mobile networks, has been gaining traction nearly every quarter. Last quarter it brought in revenues of \$153 million, up 106% over the previous year. Not only are these sales higher margin than hardware, but 70% were recurring, meaning BlackBerry can count on these sales next quarter as well.

BlackBerry anticipates generating positive free cash flow and EBITDA by 2017. Ditching hardware sooner rather than later is the only viable path towards reaching this goal.

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