



## Is BlackBerry Ltd. Sticking With Hardware After All?

### Description

The writing has been on the wall for years. After falling from a 20% market share in 2009 to under 1% today, investors have expected **BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY) to shutter its hardware business nearly every quarter.

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.

Even BlackBerry's CEO knows software will undoubtedly be the future: "I personally do not believe devices are going to be the future of any company," he reportedly said.

In July investors finally received some encouraging news: the company revealed that it will discontinue production of its Classic cellphone model. Other outlets also reported that BlackBerry has told major U.S. carriers like **Verizon Communications Inc.** and **AT&T Inc.** that all devices running BlackBerry 10 will be discontinued.

Many investors viewed this as the end to a multi-year struggle to shed BlackBerry's hardware unit. Even *The Globe and Mail* believed that the company was finally starting to "shift its focus further away from its money-losing handset business and toward its software."

It turns out, for the umpteenth time, investors have been hoodwinked.

On September 7, BlackBerry revealed that it will launch the Priv (BlackBerry's first Android smartphone) in Seoul, South Korea by the end of the month. Given that BlackBerry hasn't operated in the country for roughly three years, a new phone introduction there dampers the belief that the company is scaling down its hardware efforts.

Separately, it looks like BlackBerry is sinking capital into developing new, secure tablets for government use. In partnership with **Samsung Electronics Co Ltd**, it plans on releasing its latest "SecuTABLET" this year to be used by German government agencies. This international win was

underwhelming given the U.S. Federal government has finally ditched BlackBerry models, fleeing for competitors with better support and user interfaces.

### What's next?

CEO John Chen had previously said he would make a decision in September on whether or not it made sense to stay in the smartphone business. A decision still hasn't been made, but the choice should be clear.

The handset division sold 500,000 phones last quarter, nearly 100,000 fewer than the quarter before. In the mid-2000s, the company was selling millions of phones every quarter. Meanwhile, software sales are higher margin and come with recurring purchases. John Chen can certainly do the math himself. "If [software] is successful, the sustainability of profitability is very high," he said.

The switch to software has seemed inevitable for years. While it appeared as if there was light at the end of the tunnel, it looks like investors will have to wait a bit longer for some good news.

### CATEGORY

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1. Editor's Choice

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1. NYSE:BB (BlackBerry)
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rvanzo

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