



Why BlackBerry Ltd. Has Huge Revenue Potential

Description

BlackBerry Ltd. ([TSX:BB](#))(NASDAQ:BBRY) confirmed what many investors and analysts had hoped for during the quarterly earnings announcement this week. Specifically, BlackBerry announced that the company will no longer develop hardware directly, but rather turn to partners to develop new handset devices.

The decision should come as a shock to almost nobody, as CEO John Chen had placed a time limit over the hardware division last year in the now-famous promise to return the division to profitability within a year or to close it down. That date passed this week, and Chen confirmed the hardware division's fate.

BlackBerry has been developing devices for two decades, but in recent years sales of those handsets have struggled to keep up with an increasing number of competitors that offer better internal components at lower price points.

A key factor in the decision relates to cost savings, which BlackBerry can now begin to realize through reduced staffing and equipment, and completely eliminating the need for inventory. BlackBerry's latest smartphone, the DTEK50 is already manufactured by a partner, so this movement is something that the company has been contemplating for months.

The future of BlackBerry's hardware

To be honest, the writing was on the wall for BlackBerry's hardware division. The decision to outsource the development and manufacturing of new devices is a smart one for the company; it should have been executed over a year ago when the company transitioned to Android.

The second part of the announcement is what I found particularly interesting. BlackBerry-branded devices that are developed by partners will be a source of royalty income—reported as part of the Mobility Solutions segment of the company.

This new service-loyalty model could become a substantial source of revenue for the company should sales of the new partner-built devices begin to materialize. To long-time BlackBerry followers, the new

model also draws some parallels with the company's old service revenue fee on BIS-based devices, which formed a significant source of revenue.

BlackBerry has already announced a first major device licensing agreement with BB Merah Putih—a joint venture with an Indonesian-based telecom. Under the terms of the agreement, the devices will be distributed solely to the Indonesian market, but in theory BlackBerry could release them outside Indonesia as well, but Chen noted this is unlikely to happen.

The complete outsourcing of BlackBerry's remaining hardware development is set to wind down by February 28 at the turn of BlackBerry's financial year.

BlackBerry's quarterly results: loss or break even?

During the quarterly results announcement, BlackBerry posted a loss of US\$372 million, or US\$0.71 per share. The Mobility Solutions segment of the company posted revenues of just US\$105 million for the quarter with approximately 400,000 device sales at an average selling price of US\$271.

The Mobility Solutions segment is down 50% year over year and registered an US\$8 million dollar loss for the quarter, which was better than the US\$21 million loss reported for the same quarter last year. Revenues for the company came in at US\$334 million and fell short of the analyst-expected US\$391.75 million.

Software and services revenue has been steadily increasing over the past few years and now accounts for nearly 60% of the company's overall revenue. Even better, 81% of that software and services revenue for the quarter is recurring.

Once costs are adjusted and the cost of all of the company's restructuring efforts are taken into consideration, BlackBerry actually finishes the quarter breaking even, which is a victory, however narrow, for the company and Chen's efforts.

BlackBerry remains, in my opinion, a fairly risky investment. While the company continues to show improvement in each and every quarter, the real measure of success will be how many hardware partner agreements the company can sign, how readily available those devices will be, and, most importantly, if consumers and enterprise customers will buy them.

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