



3 Reasons Why BlackBerry Ltd. Is on the Verge of a Major Turnaround

Description

BlackBerry Ltd. ([TSX:BB](#))(NASDAQ:BBRY) has probably one of the most well-documented and longest turnarounds in recent memory. Even better, depending on who you ask, you can expect widely different answers on the company's turnaround efforts; answers range from "it's already failed" to "it hasn't even started."

So why is BlackBerry on the verge of a turnaround? Here are three reasons.

1. BlackBerry's final hardware device could be a winner

First and foremost, it comes down to devices, or rather, a lack thereof. Historically, BlackBerry's devices were seen as the envy of the market: high build quality, an iconic keyboard that allowed users to quickly tap out emails, and fairly resilient devices that could be dropped off a second floor or run over by a car and still survive. (BlackBerry owners: please, don't try it).

Unfortunately, that couldn't stop BlackBerry from falling further behind the competition. Finally, last year BlackBerry acknowledged a defeat on the hardware front and adopted the Android operating system for all phones moving forward.

This helped the ecosystem issue that BlackBerry had with its own proprietary operating system, but it did nothing to address the other issue with the hardware division, such as being able to compete on both pricing and features, of other Android hardware manufacturers. The Priv, which was released last year to positive reviews, was a great Android device, but it was priced far too high to attract the interest BlackBerry needed to continue making hardware.

The failure of the Priv ultimately had a hand in BlackBerry announcing that it would no longer design and build its own hardware; instead, it will work with partners to jointly design and build the hardware, which addresses the final pricing piece of the puzzle.

That partnership has already resulted in two devices being released in the past six months, which is more than the company has released in the past year and a half. The next device slated to be released is rumoured to be a physical keyboard device targeted to BlackBerry's core user audience, which is

largely still on legacy devices. If the pricing on that device is on par with the latest devices, then BlackBerry's last hardware device should be a memorable one for the company.

2. The growing emphasis on software revenue

BlackBerry is primarily recognized as being a manufacturer of handsets, but in reality most of the revenue the company receives comes from software and services. As part of John Chen's turnaround, he put a renewed focus on the company's core audience target: enterprise.

Over the past few quarters, this has translated into increased revenues from the software side of the operation to the point where the company posted an 89% year-over-year growth in GAAP software and services revenue in the most recent quarter.

In the most recent quarter, the company reported having nearly 3,000 enterprise clients, and approximately 81% of the revenue from the software and services group was recurring. This figure has been steadily increasing over the last few quarters and shows the sheer strength and revenue-generating potential of the software and services division.

3. BlackBerry's automotive strategy

BlackBerry's QNX software is branching out into more areas. Just last month, BlackBerry signed an agreement with **Ford Motor Company** that will give it a dedicated team of QNX engineers tasked with integrating QNX software into infotainment systems.

Over 60 million vehicles worldwide already run QNX as a base layer from which other systems can connect to. This agreement represents what is likely the first of several between BlackBerry and automotive manufacturers who are increasingly looking for more functionality and in-vehicle systems that BlackBerry's QNX team can help with.

The significance of this deal cannot be underestimated. While QNX is already in many vehicles, it was added through third-party manufacturers working with automotive companies—and added more as an afterthought without regard to design or integration between those systems. BlackBerry is now dealing directly with a large manufacturer.

While BlackBerry's turnaround will continue, all of these developments give reason to consider the stock, particularly over the long term. Investing in BlackBerry may still be too risky for some, but the line between potential risk and possible reward is a thin one.

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Date

2025/07/30

Date Created

2016/11/23

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