



Will 2017 See BlackBerry Ltd.'s Resurrection?

Description

Shares of **BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY) tanked after a not-so-great third quarter 2017 earnings announcement on December 20, 2016. Another U.S. GAAP loss per share was reported.

However, CEO John Chen claimed the company has completed a number of significant milestones to transform the once-mighty BlackBerry into a software and services company. Will investors see a return to sustained profitability in 2017?

BlackBerry has had a long spat of falling revenues, and a quick modelling of future revenue doesn't lead to any expectation of significant revenue growth come the next quarterly earnings call, especially with rapidly declining services access fees, but it is interesting to note that even with declining revenues, BlackBerry could break even and possibly return to bottom-line profitability by December 2017.

Firstly, the company is closing a loss-leading devices manufacturing division, licensing its brand to TCL, one of the top 10 vendors in the global smartphone market and a top five manufacturers and distributors in China. That means no more huge operating expenses, device manufacturing costs, distribution costs, and marketing expenses.

The licensing model is a 90% gross margin business, allowing BlackBerry to "generate ongoing high-margin royalty revenue from a device software based on the number of units sold," said John Chen.

The question is, however, will TCL pay a meaningful royalty on a brand that has lost so much brand equity in the mass market, and will unit sales be high enough?

The onus is thus on BlackBerry to align the operating expenses with the lower revenue streams to make a profit from the deal. TCL was modestly successful in reviving the Alcatel phone brand, it could do better with BlackBerry if costs are managed well on the new phones.

Secondly, BlackBerry is seeing modest growth in the software and services business, which could grow at 20% going forward. This division contributed 55% of corporate revenue with 85% of it recurring. This is an 80% gross margin business!

Mobility solutions could see some growth too in 2017, but margins are lower here.

Furthermore, the company could also see some improved revenues from U.S. government engagements late 2017 with the FedRAMP initiative likely to produce more government contracts. The Radar project could remain small though.

Most noteworthy, with the new **Ford** deal, BlackBerry might have managed to extend and deepen QNX monetisation going into 2017. Instead of just an upfront licensing component and royalties on each car manufactured, QNX would be used in more modules per car, BlackBerry will get more copies per each car, broadening use cases for QNX and increasing revenue per car.

BlackBerry's new higher-margin operations and new revenue recognition for device sales mean that the company can record lower revenues but report a positive GAAP EPS. Investors could see the company coming back to profitability by December 2017, even if the autonomous driving car gets monetized later in 2019.

However, shrinking revenues mean BlackBerry is becoming a small company, and that has an impact on valuation. Investors need to adjust to a smaller but more efficient BlackBerry beyond 2017.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing
2. Tech Stocks

Tags

1. Editor's Choice

Date

2025/09/04

Date Created

2016/12/29

Author

brianparadza

default watermark

default watermark