An Incredible Opportunity Emerging to Buy a Long-Time Tech Leader

Description

After nearly a decade of battling for its survival, there are still investors who view **BlackBerry Ltd.** (TSX:BB)(NYSE:BB) as a toxic investment that should be avoided at all costs in lieu of other investments that continue to post strong returns.

Part of that rationale stems from that very difficult decade that the company and its long-time investors traversed. In a period spanning just a few short years, BlackBerry went from being at the top of the smartphone market with a market cap measured in the tens of billions and a stock price north of $100 to an epic collapse and erosion of shareholder value.

The company has since jettisoned its hardware unit and become a pure-play on the software side of the market and returned to profitability. In fact, BlackBerry announced its largest acquisitions to-date last week that continues to showcase the company's renewed focus on its software and security niche.

BlackBerry buys Cylance

Cylance is a U.S.-based firm that develops software to combat viruses and malware, but with a unique twist. Unlike just about every other anti-virus program on the market that is focused on reacting to threats, Cylance is focused on proactively preventing such threats from reaching computers through the use of algorithmic science, artificial intelligence, and by extension, machine learning.

It's an interesting, if not an evolutionary concept of intrusion detection that dovetails nicely into BlackBerry's razor-like focus into IoT applications and autonomous driving projects that are heavily dependent on advancement into AI. That's not even noting the potential opportunities presented to BlackBerry's own cybersecurity consulting arm that was purchased several years ago.

Commenting on the US$1.4 billion deal that was nearly three times the previous largest acquisition made back in 2015, BlackBerry CEO John Chen noted that the deal will "immediately complement our entire portfolio."

Skeptics on the deal and its potential have noted that this latest purchase will burn through more than half of BlackBerry's available cash on hand, which will likely lead to weaker results in the next few quarters as the company builds its war chest back up and integrates the new business unit.

Is the deal really that good for investors?

There are a few really compelling reasons why this deal makes sense.

First, there's the market potential. Information security is a big business spend item and is only going to increase over the course of the next few years. By some accounts, pundits view this as an over US$100 billion annual market size at its current levels, which makes this latest acquisition a relative drop in the bucket in terms of long-term potential.

Second, there's the financial cost of the acquisition. While the deal is nearly three times the amount that BlackBerry paid for Good Technology a few years back, BlackBerry did so without taking on any new debt.

Then there's the focus of the company that I alluded to earlier, as well as Chen's comments on the deal. In short, this is a deal with an immediate and noticeable impact on nearly every area of the company that will likely lead to long-term growth. Some of the largest tech companies on the market have been shopping for security firms, and the fact that BlackBerry scored one that is heavily invested in emerging technologies such as artifical intelligence is both reassuring *and* intriguing.

Finally, there's the timing of the event. BlackBerry's share price has been sliding all year, which is odd considering the company's much-improved financial health and its turning a profit earlier this year. Long-term investors with a tolerance for some risk in the short term will no doubt benefit from buying in at the current lows and parking their investment for the longer-term.

In short, BlackBerry is a very different company now that is investing in the right areas, which will lead to strong growth and returns for investors.

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