BlackBerry Ltd. (TSX:BB) Has Reinvented Itself: Is It Finally Time to Buy?

Description

In 2017, **BlackBerry Ltd.** (TSX:BB)(NASDAQ:BBRY) came back from the dead. Since 2012, shares had been stuck at around $7, although they did have their fair share of ups and downs. But after a meteoric rise of nearly 100%, Blackberry's stock was trading above $14 by the end of 2017.

This past year has reversed nearly all of 2017's gains, with shares now back in the $7 range. Was the previous rise all hype or is the new and improved BlackBerry now on sale?

This is not the BlackBerry of 2012

While the stock remains at $7—similar to where it was back in 2012—there's no doubt that BlackBerry as a company has changed completely. In 2016, the company announced that it would stop manufacturing its own devices. "I personally do not believe devices are going to be the future of any company," CEO John Chen said. Instead, he turns BlackBerry's efforts toward security software, apps, and the Internet of Things.

Some recent headlines demonstrate how far the company has pivoted:

BlackBerry boosts consulting for healthcare infrastructure; Sarment partners with BlackBerry for high-net worth digital security; and BlackBerry buys AI startup Cylance for $1.4 billion.

The excitement over these initiatives was a big reason for the share run-up in 2017. Investors finally realized that the new BlackBerry had much more potential than its past as a hardware producer. This September, the company posted Q2 software and services revenue of nearly $200 million, with about 80% of those recurring nearly every quarter. Clearly, management had been able to execute an impressive turnaround.

Pivoting the business doesn't ensure success

Notably, successfully executing a pivot in BlackBerry's business model doesn't automatically result in long-term profits. In November, BlackBerry agreed to buy Cylance, a move meant to boost its artificial intelligence and cybersecurity capabilities.

The deal is valued at $1.4 billion in cash, which is more than 30% of BlackBerry's entire market capitalization. While this acquisition will play an important role in BlackBerry's ongoing transition, investors are starting to wonder whether these moves are actually creating shareholder value.

For example, in the first quarter of 2017, BlackBerry posted revenues of $400 million. These figures have fallen nearly every quarter since and now stand at just over $200 million. The reason behind the weakness is simple: while investors have moved on to more exciting areas like the company's cybersecurity ventures, BlackBerry is still bleeding revenues from its legacy businesses.

Growth doesn’t always result in shareholder value

Although shares have hit their lowest point in more than a year, several bright spots remain. The company is better positioned than ever to take advantage of several exciting fields, from autonomous vehicles and the Internet of Things to health technology and data security. But at what price?

Following the Cylance deal, BlackBerry’s cash hoard will shrink from roughly $2 billion to around $600 million. Currently, Cylance is growing quickly, but it still generates only $130 million in sales. For the deal to pay off, BlackBerry will need to integrate most of its businesses and gain scale in industries it has much less experience in.

This year, legacy revenues should drop to only 4% of total sales, meaning that the company’s old days are officially behind it. Whether BlackBerry will succeed now depends on its new focus. So far, it’s needed to buy other companies to fuel growth — a poor strategy for long-term shareholder gains.

Many institutional players remain skeptical, however. Paul Treiber, an analyst at **Royal Bank of Canada**, believes that Cylance revenues would need to grow by more than 25% every year for the next decade in order to justify its $1.4 billion price tag, but very few acquisitions are capable of producing such growth.

A bet on BlackBerry today could pay off well, but investors will need the company to execute in several areas in which the company has no previous experience. For now, the recent share dip seems to be a reasonable reaction to skepticism regarding the company’s ability to monetize a string of pricey acquisitions.

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