

BlackBerry's (TSX:BB) Moment of Truth Is Finally Here

Description

It's a pity that what was once the largest company in the country is now smaller than some mid-market software firms. **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) has spent much of the past year shrinking in market value. With its stock down by 37% over the past year, BlackBerry's market capitalization is a mere \$4.3 billion.

The legacy [smartphone business has all but vanished](#) over this period, and the company is undergoing a painful pivot to software. Specifically, BlackBerry is trying to capitalize on its penchant for software security by carving out a share of the endpoint security market.

In my [article last week](#) on **Absolute Software**, I mentioned how the global cyber security market could be worth over \$128 billion by 2020. It's a market that's growing by double-digit percentages every single year as more businesses fret about their connected devices and the protection of client data.

With a brand that's easily recognized in the enterprise space, a vast portfolio of patents, and a cash balance of \$1.7 billion, BlackBerry has the right mix of weapons to stand its ground in this battlefield. The company's strategy is to focus on providing endpoint solutions to businesses and partner with car manufacturers to integrate its software solutions with their increasingly connected line-up of cars.

QNX, the company's embedded operating system for connected vehicles, is widely considered the most popular in the world. As more cars get "smart" over the next few years, this part of the business could drive growth. Meanwhile, the company is also trying to expand margins and win more patents by suing former rivals in the smartphone space. Its portfolio of over 44,000 patents already generates a third of the company's revenue in licensing fees.

The growth in these businesses offsets the drain from other legacy parts of the business. The results are clear: gross margin has expanded from 40% to 75% over the past five years, and losses from operations have shrunk over the same period. CEO John Chen expects the gross margin to hit 85% in a few years.

In other words, the transition to software solutions and smart car operating systems should make BlackBerry profitable in a few years. If the strategy is successful, investors who've held onto the stock for years could finally be rewarded. The stock, which currently trades at a price-to-sales ratio lower than many of its peers, could be revalued at a higher multiple.

I also believe that BlackBerry's ONX platform and extensive patent portfolio make it an ideal takeover candidate for larger technology companies. An enterprise value of \$4.3 billion is a drop in the bucket for the likes of **Microsoft** and **Nvidia**.

Bottom line

Six years after turnaround expert John Chen took over as CEO, BlackBerry finally faces its moment of truth this year. In my opinion, investors and other technology companies will have to see that the company's new software-based business model is profitable before revaluing the stock or taking it

over.

For now, the stock is beaten down and compelling enough for contrarian investors and value seekers with a bit of courage.

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