What Does Apple Have to Do With BlackBerry (TSX:BB)?

Description

Few investors associate **BlackBerry Ltd** (TSX:BB)(NYSE:BB) with **Apple Inc.** (TSX:NASDAQ:AAPL). On the surface, the companies couldn't be further apart.

BlackBerry is widely known as a failed smartphone manufacturer. In the past, it held a market share of more than 20%. Today, its share is essentially 0%.

Apple, on the other hand, remains the most respected smartphone maker in the world. Its successes have pushed it to become of the most valuable companies on the planet.

You may well ask, how could these companies have anything in common? Well, a lot.

Ditch hardware

It took BlackBerry a long time to realize that hardware wasn't in its future.

In 2011, it shipped more than 50 million smartphones. Five years later, it shipped just four million devices.

By 2016, two-thirds of its research budget was still being dedicated to smartphones. *The Globe and Mail* reported that BlackBerry would "shift its focus further away from its money-losing handset business and toward its software," but the process took years longer than expected.

Finally, CEO John Chen admitted that hardware won't be "the future of any company." Shortly after, BlackBerry ceased developing smartphones.

Apple has followed a similar journey, but it seems to have learned from BlackBerry's mistakes. Instead of pivoting away from hardware after years of failure, Apple has decided to diversify its revenue streams even as its iPhone lineup remains a dominant global force.

This March, *Bloomberg* revealed that Apple is attempting its "biggest strategy change since the iPhone in 2007." That shift turns the focus to software and services versus increasingly commoditized hardware.

In 10 or 20 years, Apple may bear little resemblance to the Apple of today. BlackBerry is attempting the same transformation.

Hello software and services

BlackBerry has made big strides since it began its transformation in 2016.

Last fiscal year, software and services revenues hit US$747 million. This fiscal year, sales popped to US$845 million. For several years, these revenues have grown by double-digit rates, quarter after quarter.

Software and services are attractive for several reasons.

First, they are highly recurring. Last quarter, 91% of sales were deemed recurring, meaning that these revenues will repeat again and again for years to come. In a way, BlackBerry only needs to make a sale once in order to have dozens of future orders.

Second, they are highly profitable. Gross margins are around 80%, with EBITDA margins of roughly 20%.

Last, they position BlackBerry to take advantage of some of the biggest growth opportunities this century. The company has exposure to self-driving cars, healthcare analytics, cybersecurity, the internet-of-things, and more.

Two companies, one strategy

Don't be surprised to see Apple look a lot like BlackBerry in the future, and vice versa. Both companies have embraced that software and services revenues are the future of their businesses.

Both firms are reinvesting in these opportunities, but thus far, BlackBerry hasn't received much credit or awareness. It's likely that investors are still valuing it as a legacy smartphone maker, not the next-gen software provider it is today.

BlackBerry stock still trades at 2014 levels despite the radical transformation. This looks like a great entry point for patient investors.

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