Why BlackBerry's (TSX:BB) Q1 Results Weren't That Impressive

Description

BlackBerry (TSX:BB)(NYSE:BB) released its first-quarter results of 2020 earlier this week. The company's sales of US$247 million were up 16% year over year and BlackBerry's loss of US$35 million was nearly half the size of its net loss from a year ago. However, despite the improved results, the quarter wasn't as impressive as it appeared to be at first glance, and here's why.

New segment drove much of the growth in the quarter

In Q1, BlackBerry's new Cylance segment, which wasn't present a year ago, added US$32 million in sales. The company's Internet of Things (IoT) segment saw revenues rise by US$10 million (7.9%), while licensing sales were up by a little less than that but as a percentage grew by 14%. However, other sales erased much of those improvements with the segment's sales falling by US$17 million from a year ago. Without Cylance, BlackBerry would have seen just minimal growth in Q1.

Overall, BlackBerry's executive chairman and CEO John Chen was pleased with the results and said in the release that the company has a lot to look forward to this year: "We are ahead of our schedule in our Cylance integration, while investing in the right opportunities to drive long-term growth and profitability for BlackBerry. Customers are looking forward to our robust product cycle this year, with over 30 new secure communication products and services to be released."

Improved results largely to due to fair-value adjustments

While, at first glance, it looked like BlackBerry improved its bottom line, that too was a bit misleading. The company benefited from fair-value adjustments in its debentures, which added back US$28 million to its operating income. A year ago, the company had incurred a loss totalling the same amount, and so the total swing in one year is effectively US$56 million. Without the fair-value adjustment, BlackBerry's net loss would have been a lot closer its prior-year results.

The company saw operating costs rise in all other sections, including selling, marketing, and administration costs, which were up 21%, research and development, which rose by 16%, and amortization costs, which grew by 32%. And although the company had a gross margin of 71.7%, it was also down from the 75.6% that BlackBerry was able to achieve a year ago. The US$16 million improvement in gross margin would have not been able to offset the US$43 million increase in the company's operating expenses if not for the favourable fair-value adjustment.

Does this make BlackBerry a buy?

Although BlackBerry did well in Q1, the results were not as impressive when taking into context the fair-value adjustments and Cylance not being present a year ago. Those two factors certainly made all the difference, and while there was some good organic growth in the company's existing segments, it was still a bit of a slower pace than what investors may have been hoping for.

It's another good step forward in the company's turnaround, but it's likely not enough to get investors excited about the results.

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