Why Did BlackBerry's (TSX:BB) Stock Price Fall 22% on Tuesday?

Description

BlackBerry (TSX:BB)(NYSE:BB) released its second-quarter financial results for fiscal 2020 covering the three months ended August 31, before market open on Tuesday to trigger a 22.7% drop in the stock price, as the market digested the latest corporate earnings news update.

The company missed both revenue projections and earnings expectations and announced an unexpected change in top management that shocked the market.

Let's get into the details.

Earnings misses

BlackBerry reported quarterly revenue of US$244 million, up 16% year over year, and non-GAAP revenue of US$261 million for the quarter, which was 22% higher than that achieved during the same quarter last year, but this amount was disappointingly lower than analyst estimates by nearly US$7 million.

The company's earnings per share (EPS) loss of US$0.10 per diluted share was US$0.05 worse than expected, even though the non-GAAP EPS of US$0.00 per diluted share beat consensus estimates by US$0.01.

The company has beaten analyst estimates for several quarters. This was a first miss in a long time.

As if in a little show of defiance of recent murmurs, the company still appeared to controversially make non-GAAP numbers in its earnings release a little bit more prominent than those that comply with accounting standards, but I wouldn't focus on that very much as long as I have all the GAAP information I need, from which I can make my own non-GAAP adjustments.

Concerning segment weaknesses

The company currently has four revenue-reporting segments after the recent acquisition of AI technology leader Cylance three quarters ago, and all but one of these segments reported sequential growth. The new Cylance segment was the only revenue line to sequentially grow.

Management has failed to meet its own target to generate sequential quarter-on-quarter top-line growth, and the largest revenue-generating segment (IoT) reported a 3% sequentially sales drop while total quarterly revenue declined quarter over quarter for two consecutive quarterly periods.

Sales weaknesses have been blamed on what the company described as the “retooling” of its sales force, and management expects the negative impact of such retooling to continue for another two quarters.

That’s scary.

This means investors should expect a return to desired strong revenue growth in fiscal year 2021.

In other words, BlackBerry is struggling to sell its software products, and its biggest revenue segment has been shrinking for three straight quarters since last year. The rising-star segment, Licensing, has weakened for six straight months now, yet the “Other” segment is expected to go down perpetually as receipts from the legacy devices and services access fees vanish for good.

Something needs be done to improve revenue generation, and in a move to address weakening sales, management announced a shocker on Tuesday.

A shocking management change

The company is moving its Chief Financial Officer into marketing, and this will happen in a week! CFO Steven Cappelli will assume a new role as the Chief Revenue Officer and will be replaced by his current finance deputy. The changes will take effect on October 1, 2019. The investing public surely wasn’t expecting such a drastic move where an accountant takes over the revenue generation function in a software establishment.

But I’m not surprised.

Mr. Cappelli actually worked with the current CEO Mr. John Chen in a very successful turnaround of a software company Sybase for a very long time, and he wasn’t the finance guy there but the president of Worldwide Field Operations responsible for revenue generation.

If the investors still believe in John Chen’s ability to turn around the fortunes of a shaken software and services company as he did at Sybase, then it’s fair to believe in the abilities of the man he relied on to generate needed business development and deliver a revenue growth turnaround that time.

Mr. Cappelli is indeed surprisingly versatile.

Foolish bottom line

Investors have reason to freak out when the company's organic revenue growth trajectory falters, and another key product failure is what the company definitely doesn't need right now. I can't wait to see what the latest key management change will do to the top line over the coming months given Cappelli's deep business-development experience.

Let's see how things go, but in the meantime, here's something to check out below.

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