



Why Did BlackBerry (TSX:BB) Cut Its Revenue-Reporting Segments?

Description

Technology firm **BlackBerry** ([TSX:BB](#))([NYSE:BB](#)) released its fiscal first-quarter 2021 financial results after markets closed on Wednesday. Investors used to observe four revenue lines on the company's supplemental information, but that won't be the case anymore. BlackBerry will prominently report on just two revenue lines going forward.

There are some solid reasons why this was a necessary change, but some quarters of the investing community won't easily embrace the new development.

BlackBerry reduces revenue-reporting segments

BB's quarterly revenue was down by over 27% sequentially and 16.6% weaker year over year at US\$206 million for the quarter ending May 31, 2020. The tech firm's quarter coincided with the worst part of the coronavirus pandemic between March and May of 2020.

The company's automotive software QNX division was the worst hit as car manufactures halted production during the pandemic outbreak. That said, it's encouraging that BB managed to pull off such results while everyone was working from home.

However, readers of BlackBerry's financial statement releases could be justified in complaining that the latest top-line numbers convey much less information than the previous releases. This could be compounded by the fact that the company usually files its reports and management discussion and analysis much later after its earnings releases.

The company used to report on four clear revenue lines until the quarter to February this year. One could read separate revenue lines, namely the *IoT segment*, the *BlackBerry Cylance segment*, *Licensing* as well as a separate "Other" revenue segment, which essentially encompassed legacy services and license fees from the shuttered mobile handsets business.

Investors could easily follow line by line, quarter-on-quarter on how each business segment was performing. Projections were easier to make, as there was much more granular information available.

Fast forward to the latest quarterly earnings release and the four lines have been merged into just two. There's a "*Software and Services*" segment and a "*Licensing and Other*" revenue line.

Why the sudden change?

Given the latest revenue declines and a hefty goodwill impairment charge of US\$594 million during the quarter, one could accuse management of trying to hide some poor numbers by consolidating the lines and mixing things up. However, I find the change justifiable.

The company successfully consolidated Cylance, a recent artificial intelligence (AI) acquisition, with the Unified Endpoint Management (UEM) business to form BlackBerry Spark Suites. The consolidation was completed in time for the new fiscal year which began on March 1. Consolidations usually result in cost efficiencies.

Management disclosed in an earnings call that Cylance revenue was flat at US\$48-49 million sequentially. This could be a letdown after four consecutive quarters of strong sequential growth. However, the performance isn't too bad given a locked-down global economic situation.

The firm's legacy service and licensing fee revenue line is now too small to be significant. Management mentioned the number of US\$2 million during the earnings call on Wednesday. I would assume the "Other" revenue segment is now much smaller than US\$4 million recorded for the February quarter. That said, seeing a separate licensing and a stand-alone another revenue segment would have added better revenue clarity.

Foolish bottom line

Recent revenue reporting changes in BlackBerry's financial releases seem justifiable. However, they could mean less information for investors going forward. Perhaps management will keep providing more revenue breakdowns in notes and the management's discussion and analysis in future.

Although revenue was weaker last quarter, the company expects gradual recoveries as economies open up globally. The firm remains adequately financed to avoid any new capital raises in the near term.

Further, management plans to redeem outstanding debentures at maturity in November. De-leveraging could de-risk the business, resulting in a significant US\$23 million in annual interest cost savings and better profit margins.

There's room for a slow recovery in BlackBerry's stock price as the company returns to positive free cash flow generation in the next few quarters.

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