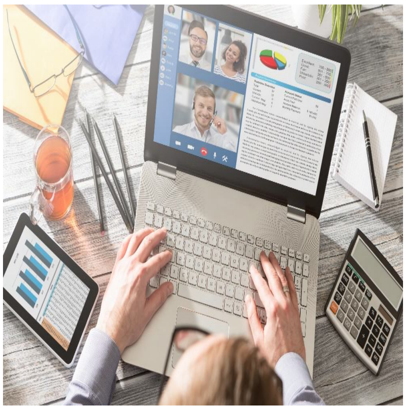

BlackBerry (TSX:BB) Claims to Be Profitable–But Is It?

Description

BlackBerry (TSX:BB)(NYSE:BB) has been a great Canadian turnaround story. After failing as a smartphone maker, it re-invented itself as a software company, and had significant success in that incarnation. As of the most recent reports, BlackBerry's QNX software was running on 175 million cars. Its sensor software was tapped for use on **Canadian Pacific Railway's** trains. And recently, it signed a deal with **Amazon** to partner with AWS on driverless car software.

These have been welcome developments. Still, profits have remained elusive. For most of its recent quarters, BlackBerry has posted strong software revenue, but negative earnings. Sinking enormous sums of money into its growing business, BlackBerry has run net losses in hopes that its investments would drive enormous market share.

Recently, though, something interesting happened. In its most recent quarter, BlackBerry reported positive earnings. Despite lower revenue, the company claimed that its earnings were positive after a few adjustments.

That would be a welcome development if real. BlackBerry's product successes have been impressive, and profits would be a real cherry on top. But we can't just take claims of profitability at face value. Before we decide whether BlackBerry is really profitable, we need to look at its recent earnings in detail. So, let's jump right into it.

BlackBerry's recent earnings

In its most recent quarter, BlackBerry reported:

- A $-0.23 GAAP net loss per share.
- $0.02 in adjusted earnings per share.
- $218 million in revenue (down from $267 million a year before).
- $29 million in cash from operating activities.

It's the non-GAAP earnings figure that shows a profit. By normal accounting standards, BB lost $0.23

per share. But after some adjustments, it showed a $0.02 profit per share. Let's take a look at those adjustments in detail.

BlackBerry's earnings adjustments

BlackBerry's third quarter adjusted earnings added back in the following charges that lowered GAAP net income:

- $95 million in fair value adjustments.
- $12 million in stock compensation expenses.
- $32 million in amortization of intangibles.
- $6 million in deferred revenue.

Some of these adjustments look legitimate at first glance. Amortization is a non-cash charge that doesn't reflect a company's operating performance. It stems from the value of a balance sheet asset being reduced over time. Many analysts make these kinds of adjustments because they don't reflect cash profitability.

The $12 million in stock compensation expense is a little harder to justify. Paying executives in newly issued stock results in a real expense to a company, as it dilutes the value of existing shares. That probably shouldn't have been taken out of net income. If you add that expense back in, then the $11 million in adjusted earnings turns to $1 million, erasing the claimed profitability.

Foolish takeaway

BlackBerry has been one of the biggest **TSX** turnaround stories of the decade. Going from a failed smartphone maker to a growing software company, it has defied expectations. Now, we're even starting to see the first indications of profitability.

In its most recent quarter, BB eked out positive adjusted earnings and operating cash flow. Conversely, GAAP earnings remained negative. Overall, it was a mixed quarter. But BlackBerry's product success remains very real.

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