BlackBerry (TSX:BB) Stock: A Major Red Flag

Description

BlackBerry Inc ([TSX:BB](#))([NYSE:BB](#)) has had an interesting run this year. After a decade in seemingly terminal decline, the stock rose 273% to about $34, before giving up some of its gains later. It's still up from where it was at the start of the year, but down more than 50% from its 2021 high.

Some investors believe that BlackBerry has a bright future. The company carries a stigma from its failure in the smartphone wars, but that's not relevant to the business today. BlackBerry today is an enterprise software company that develops security software and apps for cars. The company's QNX software was installed on 175 million vehicles at the start of this year.

For a long time, that number only kept growing. But recently, a development occurred that called QNX's continued growth into question. BlackBerry's first major step backward since it pivoted to software, this story didn't get as much attention as it deserved to. In this article, I'll explore this story and what it means for BlackBerry investors.

Ford drops BlackBerry

Last month, **Ford** ([NYSE:F](#)) announced that it was [dropping BlackBerry's infotainment software](#) in favour of **Alphabet's** offering. Initial reports were unclear as to how much of QNX Ford would stop using. Some suggested that Ford would drop QNX entirely, while others said that the company was only dropping some features. Overall, it was agreed that BlackBerry's QNX install numbers would decline because of Ford's move.

Why it's such a big deal

Ford dropping BlackBerry is a big deal for several reasons.

First, it may take away a metric that BlackBerry had been using to prove that it was [succeeding as a software company](#). Every year, BlackBerry would publish updates showing that its QNX software was growing in installations. The company prided itself on these installs, and on its growing software

revenue. With install numbers possibly declining, that's a major point taken away from the idea that BlackBerry is succeeding as a software company.

Second, BlackBerry is not profitable, nor is it growing its revenue in GAAP terms. By most of the standards fundamental investors use to evaluate companies, this company is not successful. Its management does highlight adjusted metrics in its press releases, and those paint a rosier picture. But overall, BlackBerry needs good "stories" to make investing in its stock seem like a good idea. The financial data to support doing so just isn't there.

Finally, Ford dropping BlackBerry for Google looks uncomfortably similar to what happened to BlackBerry in its smartphone days. For years, BlackBerry was a major player in the smartphone market, with its flagship product being nearly synonymous with smartphones. Then, **Apple** came along and ate its lunch. It's hard not to see a bit of the same dynamic at play when a U.S. auto maker drops BlackBerry for a much better-funded American competitor. And it does point to the possibility that BlackBerry won't be able to compete with Silicon Valley on advanced car software.

Foolish takeaway

The big takeaway from Ford dropping BlackBerry is that, even after its pivot to software, BB remains a vulnerable company. Sure, it has seen immense growth in product adoption, but as Ford showed, that can be taken away at a moment's notice. Car software is not a tiny niche that one medium sized company can corner the market on. It's a major growth industry that the world's biggest tech companies are jumping into.

Perhaps, partnerships with larger tech companies would benefit BlackBerry more than trying to dominate the industry. Indeed, its recent deal with **Amazon** suggests that it is thinking this way.

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