BlackBerry’s Earnings Were Bad, But Were They THAT Bad?

Description

At the beginning of 2021, **BlackBerry** (TSX:BB)(NYSE:BB) was certainly in the middle of what many have called “meme stock hysteria.” As a result, this company smashed through its 52-week highs in January and traded over $35 for the first time since 2011.

Those were the days.

Since then, the stock has come down to Earth. Today, it’s trading at only a slight premium to where it was before the parabolic retail investor-led surge.

Here’s one of the reasons for the drop: relatively dismal earnings.

What BlackBerry’s earnings mean for investors

BlackBerry’s earnings missed on most important metrics this past quarter. Accordingly, the stock’s already significant downside momentum has continued.

As per the earnings report, this automotive software and cybersecurity technology-focused company registered a $315 million loss in Q4. Its net loss came in at US$0.56 cents per share compared to a loss of US$0.07 per share during the same quarter last year.

The quarterly revenue of this company was $210 million. This was also significantly down from last year’s $282 million total. Additionally, BlackBerry’s adjusted income was $215 million compared to $291 million the year prior. However, on an adjusted basis, BlackBerry did report a small profit of $0.03 per share.

It’s not rocket science to see why investors were let down by these earnings.

That said, BlackBerry has put forward an intriguing argument as to why these earnings might not be as bad as they look.

Why there’s still room for optimism

Recently, John Chen stated that BlackBerry had entered negotiations with a North American party to sell a part of its patent portfolio. Supposedly, the third-party company is tied to wireless networking and handphone messaging.

As per the chief executive, the company had limited licensing revenues due to accounting rules pertaining to the negotiations that were in play. As a result, it had to forego some revenue. He further added that BlackBerry would generate $100 million as additional annual licensing revenue if a sale were not carried out.

Furthermore, Mr. Chen projected forward annual sales of $675-$715 million from its core services and software ventures. Interestingly, FactSet projects annual sales of this company to be around $1.02 billion. Accordingly, patent licensing is indeed a key area investors should be focusing on. There’s certainly some credence that can be given to this explanation, and on an adjusted basis, these earnings really don’t look that terrible.

Bottom line

BlackBerry is a company that’s still in transition. However, this company’s stock price has continued to take a hit from missed expectations.

Additionally, it appears investors are pricing in a relatively high level of execution risk into BlackBerry stock today. I can understand that.

However, investors in BlackBerry may want to hold off on judgement about just how bad these earnings were without diving into the numbers a bit. The company still has some great long-term growth prospects, and if it executes, it can potentially perform very well over the long term.

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