



This 5-Year Prediction for BlackBerry (TSX:BB) Might Surprise You

Description

BlackBerry ([TSX:BB](#))([NYSE:BB](#)) is trying to overcome its black past and is struggling to make a bright future. The company made the headlines once again in January as a pawn in Redditors game of short squeeze. But that has nothing to do with its future. Here, I will forget the past and look at BlackBerry as a software startup struggling to make its mark in the [fast-growing markets](#) of Cybersecurity and software. This perspective change might surprise you.

Looking at BlackBerry from the lens of a software startup

Firstly, you have to stop looking at BlackBerry as a hardware company. It has undergone a complete turnaround in its business model and is now a cloud-based software company. Unlike hardware, the software industry is not capital intensive and has strong competition. Hence, a software company is analyzed on its ability to remain sticky and keep innovating. For this, it needs to become a need-to-have technology rather than a nice-to-have technology.

When you predict a software-as-a-service (SaaS) company, look for three things:

- The growth of the market it is operating in
- The company's strategy to tap the growth
- Its fundamentals like cash reserves and adjusted EBITDA

BlackBerry is operating in two markets. The first is cyber-security solutions like Spark that serves large enterprises in highly regulated verticals like the government, financial services, and healthcare. The second is an embedded technology platform, largely automotive, like QNX and IVY.

BlackBerry in the fast-growing market

Cybersecurity spending has been slow to pick up. But with growing demand for remote working and increasing mission-critical applications, cybersecurity will become a must-have technology for every endpoint device. Grand View Research [expects](#) the endpoint management software market to increase at a compounded annual growth rate (CAGR) of 32.2% between 2020 and 2027. It has recently partnered with

IBM to sell Spark in Canadian companies.

The next big growth market is the automotive operating system (OS), which Global Market Insights expect to rise at a 15% CAGR between 2020 and 2026. BlackBerry QNX platform protects more than 175 million cars. The overall automotive demand was down during the pandemic, but the electric vehicle (EV) segment is booming as major economies focus on reducing carbon emission.

BlackBerry QNX accounts for 68% of the global EV market by volume. The company serves 23 of the top 25 EV makers. Among the two EV makers missing from BlackBerry's list is the largest EV maker **Tesla**.

BlackBerry's sales from Software and Services have been on a long-term decline as the turnaround was still in process. The exact cause of the decline was not clear as the segment included revenue from both segments. From fiscal 2022 onward, BlackBerry will report the earnings from the Cybersecurity and Software segments separately. This will make it easier for investors to map the company's ability to tap the market growth.

What do fundamentals say?

At the end of fiscal 2021, BlackBerry had \$804 million in cash reserve, which shows that it can fund its growth. Moreover, its adjusted EBITDA surged 12% while its revenue fell 16% in fiscal 2021, indicating that the company is operating efficiently. If you look at non-GAAP (generally accepted accounting principles) operating loss, it is only widening as it is still impairing its goodwill it lost in 2007. That's a burden of the past.

The five-year prediction of BlackBerry

BlackBerry is in the right markets, has the right strategy, and a strong balance sheet to support it in tough times. It is relying on QNX for near-term growth and has also secured design wins from Volvo, **Sony**, **Baidu**, and many more. Still, its five-year prediction is mixed as it has to prove itself through the strong execution of its product roadmap.

If BlackBerry pulls off this turnaround while fighting stronger competition and also retains its competitive edge, it could become the next **Advanced Micro Devices**. But have no expectations with BlackBerry as it could also go south after years of patience. The success depends on the industry's acceptance of BlackBerry as the platform of choice. You can put a small portion of your portfolio in BlackBerry now and increase your stake in it when the company proves itself.

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