



BlackBerry Ltd.: The Good News and the Bad News From Q4

Description

BlackBerry Ltd. ([TSX:BB](#))(NASDAQ:BBRY) reported results for the fourth quarter of FY 2016, and the numbers were very mixed. We'll take a look at the good news and the bad news.

The good news

Since becoming BlackBerry's CEO, John Chen has placed a strong emphasis on cost cutting, and these efforts were once again reflected in BlackBerry's results. Despite missing revenue estimates (more on that later), BlackBerry posted an adjusted loss of just US\$0.03 per share, beating analyst expectations by US\$0.07.

Due to these cost-cutting efforts, BlackBerry was once again able to lower its hardware breakeven threshold for device sales. Only a couple of years ago, Mr. Chen said the company needed to sell 10 million devices to break even on hardware. Now that number stands at three million.

The other good piece of news is that software more than doubled year over year, allowing BlackBerry to meet its \$500 million goal for annual software revenue. This was largely done through some big acquisitions, such as the \$425 million acquisition of Good Technology in November. Yet BlackBerry still deserves a lot of credit for reaching this goal, one that few people thought was achievable.

On a related note, shareholders should be happy about the changing revenue mix. In the most recent quarter, software and services accounted for 28% of revenue. At this time last year, that number was just 11%.

The bad news

Once again, BlackBerry's top line was very disappointing with revenue totaling just \$464 million. That's a decline of nearly 30% year over year and 18% short of analyst estimates.

Anemic hardware sales were the main cause. BlackBerry recognized revenue on just 600,000 devices in the quarter, a decline from 700,000 in Q3. What makes this especially disappointing is that Q4 included the Christmas season and was also the first quarter that fully included Priv sales.

BlackBerry didn't disclose how many Priv units were shipped, and this is a sign the phones simply haven't caught on. Mr. Chen also admitted that a high price point may have inhibited sales, calling the high-end Android market "saturated."

And even though BlackBerry is shifting its focus to software, falling hardware sales are not inconsequential. The company still derives close to 40% of its revenue from hardware, which is actually an increase relative to last year thanks to plunging service-access-fees revenue. Falling hardware sales are also bad for the brand, which ultimately affects the software business as well.

Is BlackBerry worth buying?

After deducting net cash, BlackBerry is valued at about \$2.6 billion, which is equivalent to roughly 1.8 times revenue. For a company in which revenue is declining and profits are hard to come by, this is a steep multiple. This is also a very uncertain industry, one in which BlackBerry is competing directly with better-funded competitors.

So at this point, BlackBerry remains a speculative investment at best. There are better options for your portfolio.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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