

BlackBerry Limited (BB)

\$6.15 (As of 02/19/20)

Price Target (6-12 Months): **\$6.50**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

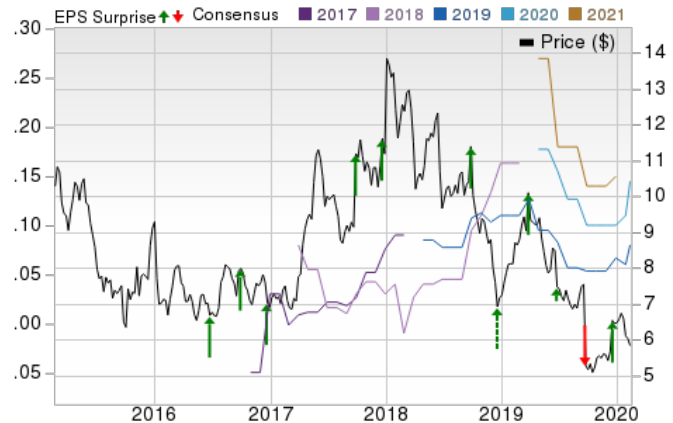
Growth: D

Momentum: B

Summary

BlackBerry is poised to benefit from growth in its cybersecurity business, while providing one of the most secure mobile enterprise solutions in the market. With a holistic growth model, focusing both on organic and inorganic initiatives, BlackBerry aims to expand its market leadership in enterprise mobility. The acquisition of Cylance has provided additional cybersecurity capabilities with advanced AI and ML technologies. It has also augmented the cybersecurity capabilities of BlackBerry Spark, making it an indispensable proposition for the Enterprise of Things. However, technological obsolescence remains a challenge, increasing its costs through R&D efforts for new product introductions. BlackBerry is susceptible to the risk of adverse foreign currency exchange rate fluctuations. Legal issues have further dented the credibility of the company.

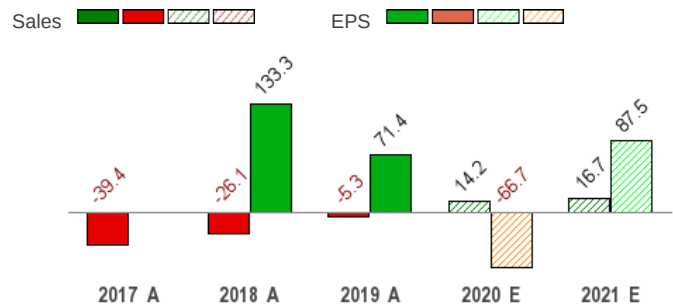
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$10.29 - \$4.86
20 Day Average Volume (sh)	4,626,838
Market Cap	\$3.4 B
YTD Price Change	-4.2%
Beta	1.80
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Wireless Non-US
Zacks Industry Rank	Bottom 33% (170 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	200.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/03/2020
Earnings ESP	0.0%
P/E TTM	47.3
P/E F1	76.9
PEG F1	NA
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,221 E
2020	267 A	261 A	280 A		1,046 E
2019	217 A	214 A	228 A	257 A	916 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$0.15 E
2020	\$0.01 A	-\$0.02 A	\$0.03 A	\$0.04 E	\$0.08 E
2019	\$0.03 A	\$0.04 A	\$0.03 A	\$0.11 A	\$0.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/19/2020. The reports text is as of 02/20/2020.

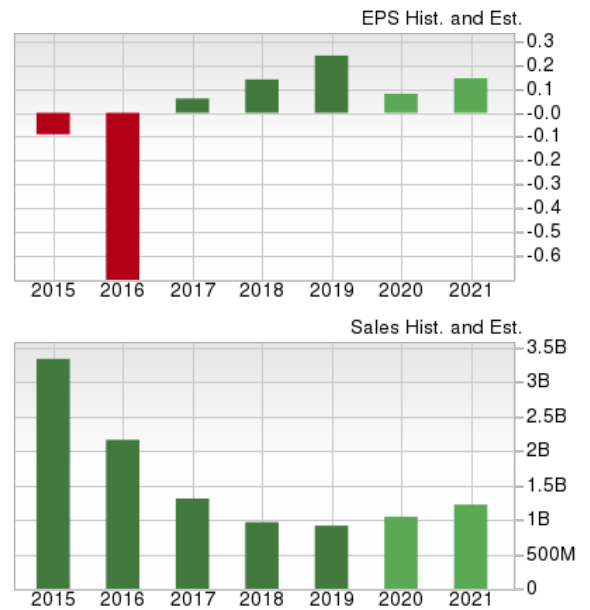
Overview

Headquartered in Waterloo, Canada, BlackBerry Limited was founded in 1984. The company operates in North America, Europe, Middle East and Africa, and Other regions. The cybersecurity software and services company provides devices and software platform for managing security, mobility and communications between and among hardware, programs, mobile apps and the Internet of Things.

In 2017, the company announced its decision to end all internal hardware development and outsource the same to its partners. BlackBerry receives royalty per unit from hardware products.

By product and service type, IoT generated 51.8% of total non-GAAP revenues in third-quarter fiscal 2020 and BlackBerry Cylance contributed 18.9%. Licensing raked in 27.5% of total non-GAAP revenues, while the balance accounted for Other.

Geographically, North America has contributed 70.4% of total GAAP revenues. Europe, Middle East and Africa have notched up 22.5% of the revenue pie. Other regions have yielded 7.1% of total revenues in third-quarter fiscal 2020.



Reasons To Buy:

- ▲ BlackBerry enables the Enterprise of Things by providing the technology that allows endpoints to trust one another, communicate securely and maintain privacy. Solid software sales continue to aid the Canadian company while growth in its cybersecurity business remains a huge positive. BlackBerry acquired Irvine, CA-based cybersecurity firm, Cylance, for \$1.4 billion in cash. Cylance's highly skilled cybersecurity workforce and market-leading portfolio of endpoint solutions are a strategic fit for BlackBerry and complement its Unified Endpoint Management and QNX businesses. Moreover, the addition of Cylance has augmented the cybersecurity capabilities of BlackBerry Spark, making it an indispensable proposition for the Enterprise of Things.
- ▲ BlackBerry has clinched a contract from the NATO Communications and Information ("NCI") Agency for its SecuSUITE for Government to encrypt the conversations of technology and cyber leaders of the latter. The NCI Agency assists NATO's 29 member-nations to communicate in a secure manner and work together in smarter ways. Notably, the cybersecurity software company's technology mobilizes secure voice and text communications from unclassified through classified levels. The solution supports Android and iOS smartphones and tablets, and can be installed on-premise in a data center or in the cloud. It protects against threats to local and national security by enabling secure communications on mobile devices. Calls are encrypted from device to the crypto gateway installed in an organization's network to combat electronic eavesdropping by cybercriminals.
- ▲ For IoT, the cybersecurity software and services company intends to drive healthy revenue growth and increase market share in the industry vertical. At the same time, it intends to grow market share for BlackBerry Cylance, while improving profitability and reducing the cash burn. For licensing, the company seeks to close opportunity for higher amount of recurring revenues. In addition, it has created BlackBerry Government Solutions — a new independent subsidiary — which will accelerate its Federal Risk and Authorization Management Program (FedRAMP) initiatives. Headquartered in Washington, DC., BlackBerry Government Solutions has a separate corporate governance structure to comply with the U.S. national security requirements. The move allows the company to deepen its reach within the U.S. government sector by ensuring that its next-generation cybersecurity solutions and Spark platform meet FedRAMP and Authority to Operate certifications while providing customers better service.
- ▲ As a leading player in the enterprise mobility management, BlackBerry is widely recognized for productivity and security innovations. The company offers one of the most secure mobile enterprise solutions in the market through a broad portfolio of products and services. It offers an end-to-end software and services platform for the Enterprise of Things, which includes computers, vehicles, sensors, equipment and other connected endpoints within the enterprise that communicate with each other to enable smart business processes. With a holistic growth model, focusing both on organic and inorganic initiatives, BlackBerry aims to expand its market leadership in the enterprise mobility segment. The company leverages many elements of its extensive technology portfolio to extend best-in-class security and reliability to its solutions for the Enterprise of Things, including unified endpoint management (UEM), cybersecurity solutions, embedded systems, crisis communications, enterprise applications and related services, with hosting available on the company's global, scalable, secure network, as well as in the cloud. BlackBerry continues to increase and enhance its product and service offerings through both organic investments and strategic acquisitions. The company aims to remain a leader in its target enterprise markets by extending the functionality of its secure platform and delivering innovative solutions focused on strategic industry verticals.

With a holistic growth model, focusing both on organic and inorganic initiatives, the Canadian company intends to expand its market leadership in the enterprise mobility segment.

Reasons To Sell:

- ▼ BlackBerry is engaged in markets that are highly competitive and rapidly evolving. The company competes with a broad range of vendors in each of its businesses. Key competitive factors across its businesses include product features, relative price and performance, product quality and reliability, compatibility across ecosystems, service and support, and corporate reputation. Accordingly, both the nature of the competition and the scope of the business opportunities afforded by the markets in which the company competes are uncertain. Moreover, legal issues like the payment dispute with Nokia have taken a heavy toll on BlackBerry's long-term credibility. High technological obsolescence remains a significant challenge for the company, increasing its operating costs for continuous R&D efforts to introduce new product frequently and fend off competition.
- ▼ The company's future success depends upon its ability to enhance and integrate its current products and services, as well as the BlackBerry Spark platform, to provide for their compatibility with evolving industry standards and operating systems. The process of developing new technology is complex and uncertain, and involves time, substantial costs and risks, which are further magnified when the development process involves multiple operating platforms. BlackBerry may be required to commit significant resources to developing new products, software and services before knowing whether such investment will result in products or services that the market will accept. With increasing global exposure, BlackBerry is susceptible to the risk of adverse foreign currency exchange rate fluctuations. Its current year earnings estimates have decreased 27.3% in the past year to 8 cents, representing negative investor sentiment.
- ▼ BlackBerry's ability to maintain and expand its market reach is increasingly dependent on developing and maintaining relationships with third party resellers and channel partners. If the company is unable to effectively identify and establish new relationships, its business results of operations and financial condition is likely to be materially adversely affected. Moreover, companies like BlackBerry operate in a heavy capital-intensive industry, incurring significantly high capital investments for technologically obsolescent offerings and R&D expenses. It also faces huge depreciation charges due to large fixed asset base. As it expands service portfolios, a decisive challenge remains as rivals tend to offer services at lower margin and disruptive prices in key segments. As such, it might not be able to tide over the broader challenges in the near term.

Adverse foreign currency translation undermines the growth potential of BlackBerry to some extent. Disruptive pricing strategies by competitors remain another challenge for the company.

Last Earnings Report

BlackBerry Q3 Earnings Beat on Solid Revenues

BlackBerry reported healthy third-quarter fiscal 2020 (ended Nov 30, 2019) results on solid revenue growth. The company also remained confident to meet the consensus estimates for fiscal 2020 or even surpass them based on strong year-to-date performance.

Bottom Line

On a GAAP basis, net loss for the quarter was \$32 million or loss of 7 cents per share against net income of \$59 million or 1 cent per share in the year-ago quarter. The year-over-year decline was primarily due to higher operating expenses.

Excluding non-recurring items, BlackBerry recorded non-GAAP earnings of \$17 million or 3 cents per share, which surpassed the Zacks Consensus Estimate by 2 cents.

Revenues

Quarterly GAAP revenues increased 18.1% year over year to \$267 million. Non-GAAP revenues improved 22.8% to \$280 million with strong performance of the software and service businesses (up 26% year over year to \$275 million). Region wise, North America generated GAAP revenues of \$188 million compared with \$151 million in the year-ago quarter. Revenues from Europe, Middle East and Africa were \$60 million, up 7.1% year over year, while revenues from other regions remained flat at \$19 million.

By product and service type, non-GAAP revenues from **IoT** decreased 3.3% year over year to \$145 million. **BlackBerry Cylance** non-GAAP revenues came in at \$53 million, benefiting from its acquisition of cybersecurity firm, Cylance. This boosted the company's software and services business as it has provided additional cyber security capabilities with advanced artificial intelligence and machine learning technology. Non-GAAP revenues from **Licensing** were \$77 million, up 13.2% year over year, while **Other** non-GAAP revenues decreased to \$5 million from \$9 million.

Other Details

Gross profit for the quarter increased to \$198 million from \$170 million in the year-ago quarter on higher revenues. Total operating expenses more than doubled to \$227 million from \$112 million due to higher selling, marketing and administration expenses, and lower favorable adjustment of debentures fair value. Operating loss was \$29 million against operating income of \$58 million in the prior-year quarter.

Cash Flow & Liquidity

During the first nine months of fiscal 2020, BlackBerry utilized \$8 million of net cash for operations against cash generation of \$82 million in the year-ago period. On a reported basis, the company generated \$37 million of free cash flow in the quarter.

As of Nov 30, 2019, BlackBerry had \$515 million in cash and equivalents. The cybersecurity software and services company's total cash, cash equivalents, short-term and long-term investments were \$970 million as of the same date.

Outlook

For fiscal 2020, management remains confident to meet the consensus estimate for non-GAAP earnings of 6 cents per share on revenues of \$1.1 billion. Based on solid year-to-date performance, the company further expects to even top earnings estimates and record non-GAAP earnings in the vicinity of 8 cents per share.

BlackBerry continues to invest in the right opportunities to drive long-term growth and profitability. Its strong product cycle and incremental contribution from Cylance instill optimism. Further, the company is integrating its endpoint management and artificial intelligence technologies on one platform to address the high-growth endpoint security market.

Quarter Ending **11/2019**

Report Date	Dec 20, 2019
Sales Surprise	NA
EPS Surprise	200.00%
Quarterly EPS	0.03
Annual EPS (TTM)	0.13

Recent News

On Jan 7, 2020, BlackBerry announced that it has partnered with ANSYS to integrate its real-time operating system, QNX Neutrino, with ANSYS' critical embedded software — SCADE — for the development of next-gen autonomous and connected vehicles. With the software incorporated in more than 150 million vehicles, the technology has been specifically designed to increase safety and reliability, shorten time-to-market and reduce development cost for the automotive manufacturers.

On Jan 6, 2020, BlackBerry announced that it has collaborated with Amazon Web Services, Inc. ("AWS") – the cloud computing platform of Amazon – for the development of secure and intelligent connected vehicle software platform for in-vehicle applications. The partnership seeks to integrate BlackBerry QNX real-time operating system with AWS' IoT services in the cloud and in the car to develop a comprehensive edge-to-cloud offering for the global automotive industry.

On Jan 3, 2020, BlackBerry announced that it has collaborated with Damon Motorcycles to unveil the latter's flagship Hypersport Pro Electric Superbike at CES 2020. Per the alliance, the Canada-based motorcycle company's entire electric bike lineup will be powered by BlackBerry's avant-garde technology — QNX — to enhance its much-acclaimed 360° warning system, CoPilot, and licensed rider friendly feature, Shift. The partnership is likely to fortify the telco giant's position as one of the most secure mobile enterprise solutions providers in the market.

On Dec 17, 2019, BlackBerry announced that it will exhibit next-gen intelligent security and transportation solutions at CES 2020. The conference, which is slated to commence from Jan 7, 2020, will highlight BlackBerry's contribution in the evolution of smart auto and transportation by leveraging advanced AI and ML technologies.

On Dec 10, 2019, BlackBerry unveiled the participants for the second cohort of its joint-accelerator program with L-SPARK — the largest accelerator for Software as a Service (SaaS) companies in Canada. Together, the companies are collaborating to help start-up firms that are focused on vehicle-connected services and cloud connectivity to scale up to the next level.

On Dec 9, 2019, BlackBerry announced that it has collaborated with China-based electric vehicle manufacturer WM Motor to augment the in-car experience of the latter. The automotive firm intends to embed BlackBerry QNX Neutrino Realtime Operating System and other QNX software products within its upcoming range of third-generation SUVs.

Valuation

BlackBerry shares are down 26.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 10% over the past year, but stocks in the Zacks Computer and Technology sector are up 29.4% in the same time frame.

The S&P 500 Index is up 20.7% in the past year.

The stock is currently trading at 14.80X trailing 12-month EV/EBITDA, which compares to 10.06X for the Zacks sub-industry, 13.02X for the Zacks sector and 12.31X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 33.2X and as low as 2.9X, with a 5-year median of 13.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$6.50 price target reflects 4.89X trailing 12-month book value.

The table below shows summary valuation data for BB

Valuation Multiples - BB					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	14.8	10.06	13.02	12.31
	5-Year High	33.2	23.16	13.02	12.85
	5-Year Low	2.85	6.51	7.68	8.47
	5-Year Median	13.28	15.04	10.54	10.72
P/B TTM	Current	1.33	2.31	5.74	4.66
	5-Year High	3.09	4.32	5.76	4.68
	5-Year Low	0.89	0.88	3.13	2.85
	5-Year Median	1.74	2.07	4.24	3.62
P/S F12M	Current	2.79	0.9	3.78	3.57
	5-Year High	8.71	1.58	3.78	3.57
	5-Year Low	1.29	0.85	2.3	2.54
	5-Year Median	3.47	1.1	3.02	3

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 255)



Top Peers

America Movil, S.A.B. de C.V. (AMX)	Neutral
China Mobile (Hong Kong) Ltd. (CHL)	Neutral
China Unicom (Hong Kong) Ltd (CHU)	Neutral
Mobile TeleSystems PJSC (MBT)	Neutral
Orange (ORAN)	Neutral
Millicom International Cellular SA (TIGO)	Neutral
Ceragon Networks Ltd. (CRNT)	Underperform
KT Corporation (KT)	Underperform

Industry Comparison Industry: Wireless Non-us				Industry Peers		
	BB Neutral	X Industry	S&P 500	CHL Neutral	CHU Neutral	CRNT Underperform
VGM Score	D	-	-	A	-	D
Market Cap	3.40 B	9.71 B	24.59 B	176.70 B	26.74 B	155.24 M
# of Analysts	2	1	13	1	0	1
Dividend Yield	0.00%	2.35%	1.78%	4.06%	2.05%	0.00%
Value Score	D	-	-	A	-	B
Cash/Price	0.27	0.16	0.04	0.36	0.17	0.16
EV/EBITDA	11.69	5.39	14.21	NA	NA	4.77
PEG Ratio	NA	1.61	2.09	2.20	NA	NA
Price/Book (P/B)	1.33	1.58	3.28	1.11	0.58	0.97
Price/Cash Flow (P/CF)	15.88	4.38	13.59	4.38	2.13	20.11
P/E (F1)	77.75	12.31	19.17	10.79	10.66	NA
Price/Sales (P/S)	3.35	1.28	2.68	NA	NA	0.54
Earnings Yield	1.30%	7.85%	5.18%	9.27%	9.38%	-2.59%
Debt/Equity	0.05	1.02	0.70	0.05	0.09	0.00
Cash Flow (\$/share)	0.39	2.83	6.93	9.85	4.11	0.10
Growth Score	D	-	-	B	NA	D
Hist. EPS Growth (3-5 yrs)	NA%	-0.46%	10.84%	NA	NA	33.29%
Proj. EPS Growth (F1/F0)	-66.67%	4.50%	7.00%	2.56%	31.20%	NA
Curr. Cash Flow Growth	3.41%	2.46%	7.81%	3.67%	3.13%	-67.44%
Hist. Cash Flow Growth (3-5 yrs)	-17.63%	-2.58%	8.25%	1.97%	-0.63%	129.98%
Current Ratio	1.06	1.01	1.24	1.11	0.38	2.07
Debt/Capital	4.75%	51.65%	42.37%	4.97%	8.53%	0.00%
Net Margin	-5.92%	6.73%	11.69%	NA	NA	-0.82%
Return on Equity	0.89%	9.52%	16.86%	NA	NA	-1.21%
Sales/Assets	0.26	0.53	0.55	NA	NA	0.95
Proj. Sales Growth (F1/F0)	14.19%	2.49%	4.05%	1.91%	6.43%	-0.18%
Momentum Score	B	-	-	A	-	F
Daily Price Chg	0.99%	0.42%	0.38%	1.36%	1.63%	-2.76%
1 Week Price Chg	-3.16%	0.13%	1.65%	-1.91%	-1.59%	-7.69%
4 Week Price Chg	-7.24%	-0.54%	0.86%	-2.84%	-3.64%	-13.23%
12 Week Price Chg	9.82%	2.47%	4.56%	10.78%	-3.21%	0.26%
52 Week Price Chg	-27.82%	-0.23%	14.15%	-18.45%	-27.05%	-53.03%
20 Day Average Volume	4,626,838	152,538	1,989,235	1,336,156	460,947	613,264
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.17%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.03%	2.17%	5.13%	-171.43%
(F1) EPS Est 12 week change	40.00%	0.96%	-0.21%	1.52%	6.03%	-171.43%
(Q1) EPS Est Mthly Chg	0.00%	-100.00%	-0.40%	NA	NA	-200.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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