

BlackBerry Limited (BB)

\$4.27 (As of 04/17/20)

Price Target (6-12 Months): **\$5.00**

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:F

Value: D

Growth: F

Momentum: F

Summary

BlackBerry reported healthy fourth-quarter fiscal 2020 results, wherein adjusted earnings surpassed the Zacks Consensus Estimate. The company is well positioned to benefit from increase in its cybersecurity software and services business, while providing one of the most secure mobile enterprise solutions in the market. Moreover, the buyout of Cylance boosted its operations as it has provided additional cyber security capabilities with advanced AI and ML technologies, while complementing its UEM and QNX businesses. 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 to some extent.

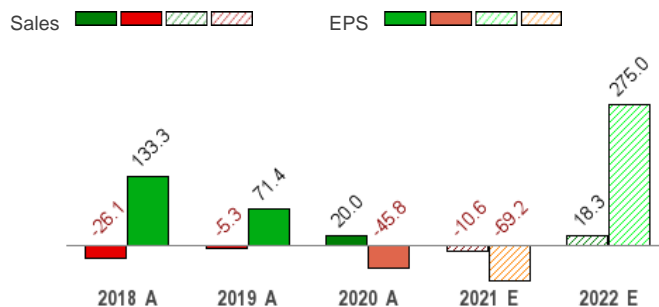
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$9.42 - \$2.70
20 Day Average Volume (sh)	6,407,473
Market Cap	\$2.4 B
YTD Price Change	-33.5%
Beta	1.71
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Wireless Non-US
Zacks Industry Rank	Bottom 46% (137 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	125.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-171.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	38.8
P/E F1	106.8
PEG F1	NA
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,163 E
2021					983 E
2020	267 A	261 A	280 A	291 A	1,099 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$0.15 E
2021	-\$0.01 E	\$0.00 E	\$0.03 E	\$0.05 E	\$0.04 E
2020	\$0.01 A	-\$0.02 A	\$0.03 A	\$0.09 A	\$0.13 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 04/17/2020. The reports text is as of 04/20/2020.

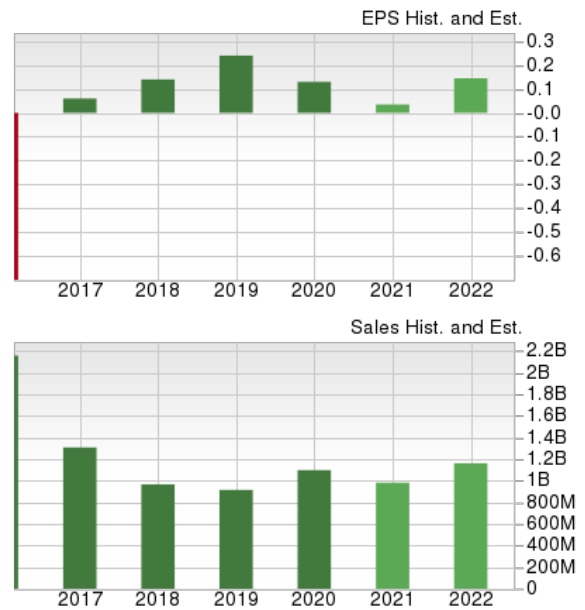
Overview

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 45% of total non-GAAP revenues in fourth-quarter fiscal 2020 and BlackBerry Cylance contributed 15.2%. Licensing raked in 38.3% 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 fourth-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 38.5% in the past year to 8 cents, representing negative investor sentiments.
- ▼ 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 operates 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 Q4 Earnings Beat Estimates, Revenues Rise Y/Y

BlackBerry reported healthy fourth-quarter fiscal 2020 (ended Feb 29, 2020) results, with adjusted earnings surpassing the Zacks Consensus Estimate.

In fiscal 2020, the cybersecurity software and services company released more than 30 new products and made strong progress on developing BlackBerry's zero-trust architecture as part of the Spark platform.

Quarter Ending **02/2020**

Report Date	Mar 31, 2020
Sales Surprise	NA
EPS Surprise	125.00%
Quarterly EPS	0.09
Annual EPS (TTM)	0.11

Bottom Line

On a GAAP basis, net loss in the quarter was \$41 million or a loss of 7 cents per share against a net income of \$51 million or 8 cents per share in the year-ago quarter. The year-over-year decline was primarily caused by an operating loss and lower recovery of income tax. In fiscal 2020, net loss was \$152 million against a net income of \$93 million in fiscal 2019.

However, non-GAAP net income in fiscal fourth-quarter came in at \$51 million or 9 cents per share compared with \$60 million or 11 cents in the prior-year quarter. The bottom line beat the Zacks Consensus Estimate by 5 cents.

Revenues

Quarterly total GAAP revenues increased 10.6% year over year to \$282 million. By product and service type, revenues from **IoT** fell 11.8% year over year to \$127 million, primarily due to BlackBerry Technology Solutions (BTS). BTS has been unexpectedly impacted by the slowdown in the auto industry supply chain due to the pandemic.

BlackBerry Cylance revenues came in at \$43 million, benefiting from the acquisition of Cylance. This boosted the company's software and services business as it has provided additional cybersecurity capabilities with AI and ML technology. Revenues from **Licensing** were \$108 million, up 9.1% year over year. The upside reflects on better-than-expected performance attributable to some business that came in early. Other revenues declined to \$4 million from \$9 million. For fiscal 2020, revenues increased 15% year over year to \$1,040 million.

Non-GAAP revenues in fiscal fourth-quarter increased 13.2% to \$291 million, reflecting record Software and Services revenues (up 16% year over year to \$287 million).

Other Quarterly Details

Gross profit increased to \$212 million from \$206 million in the year-ago quarter, led by top-line growth. Total operating expenses increased to \$253 million from \$178 million. Operating loss was \$41 million against an operating income of \$28 million in the prior-year quarter.

Cash Flow & Liquidity

In fiscal 2020, BlackBerry generated \$26 million of net cash in operations compared with \$100 million in fiscal 2019. As of Feb 29, BlackBerry had \$377 million in cash and equivalents with \$120 million of lease liabilities.

Outlook

Currently, there is a lot of uncertainty across the global economy due to the coronavirus pandemic. So BlackBerry did not provide any specific financial outlook for fiscal 2021, as things are changing daily. The company anticipates a tough first quarter due to the impact of the COVID-19 on its business. This may persist into the second quarter as well. That said, the company doesn't expect a stronger second half of fiscal 2021 compared with the first half.

BlackBerry continues to invest in product development and go-to-market strategy to drive long-term sustainable growth. Its revenues will likely be impacted by continued headwinds to global auto production and sales. However, the company's Cylance products, including CylanceGUARD, are helping customers combat cybersecurity and privacy risks as the number of BYOD endpoints increases in a remote working environment.

Recent News

On Apr 6, 2020, BlackBerry announced that it is collaborating with ZTR Control Systems to develop a remote sensing device for railcars. The innovative offering is likely to improve the visibility of operations through an in-depth analysis of the underlying metrics to optimize asset utilization. Based in Ontario, Canada, ZTR is a privately-held company that provides monitoring and control systems for the railway and industrial off-road compact construction equipment markets. Its IoT division, in particular, offers a remote equipment monitoring system to modernize locomotives. BlackBerry aims to tap this unique technological prowess to develop a platform that will enable owners and operators to better manage their fleet, while improving battery consumption capabilities of the remote sensing device.

On Mar 10, BlackBerry revealed that it has augmented its Cylance North America Partner Program. Focused on innovation and partner enablement, the program offers security solutions and a broad spectrum of consulting services. The enhancements to its North America Partner Program will likely enhance the speed of transaction and continue to enable partners with the resources and technical authorizations.

On Feb 25, BlackBerry announced the introduction of new product enhancements to the endpoint protection platform and endpoint detection and response pillars of its BlackBerry Spark platform. These include single-agent deployment, custom role-based access controls and accelerated incident investigation with the release of CylanceOPTICS v2.4.

On Jan 7, 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, 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, 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.

Valuation

BlackBerry shares are down 53.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 24.5% over the past year, but stocks in the Zacks Computer and Technology sector are up 3% in the same time frame.

The S&P 500 Index is down 1.7% in the past year.

The stock is currently trading at 8.74X trailing 12-month EV/EBITDA, which compares to 8.90X for the Zacks sub-industry, 11.02X for the Zacks sector and 10.51X for the S&P 500 Index.

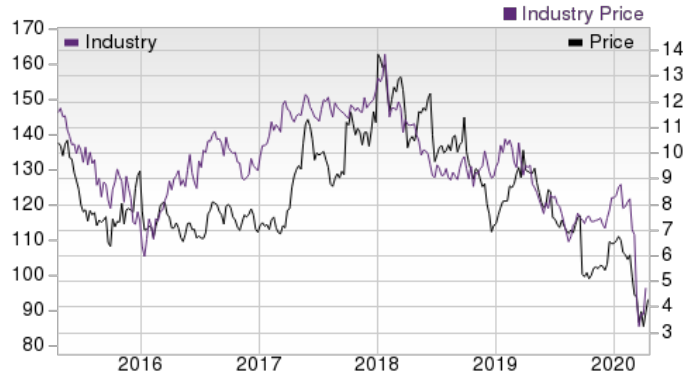
Over the past five years, the stock has traded as high as 34.95X and as low as 2.63X, with a 5-year median of 13.36X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$5.00 price target reflects 5.32X trailing 12-month book value.

The table below shows summary valuation data for BB

Valuation Multiples - BB					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.74	8.9	11.02	10.51
	5-Year High	34.95	23.17	12.83	12.87
	5-Year Low	2.63	6.17	7.55	8.27
	5-Year Median	13.36	15.13	10.59	10.78
P/B TTM	Current	0.94	0.79	4.48	3.8
	5-Year High	3.09	4.32	5.37	4.55
	5-Year Low	0.64	0.69	3.15	2.84
	5-Year Median	1.74	2.02	4.27	3.64
P/S F12M	Current	1.93	0.83	3.36	3.2
	5-Year High	8.71	1.58	3.58	3.44
	5-Year Low	1.29	0.83	2.32	2.54
	5-Year Median	3.49	1.09	3.09	3.01

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Bottom 46% (137 out of 253)



Top Peers

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

Industry Comparison Industry: Wireless Non-us				Industry Peers		
	BB Neutral	X Industry	S&P 500	CHL Neutral	CHU Neutral	CRNT Underperform
VGM Score	F	-	-	A	A	C
Market Cap	2.37 B	5.61 B	19.60 B	159.87 B	19.71 B	163.67 M
# of Analysts	2	1	14	2	2	1
Dividend Yield	0.00%	2.78%	2.17%	4.49%	2.78%	0.00%
Value Score	D	-	-	A	A	C
Cash/Price	0.44	0.28	0.06	0.38	0.28	0.17
EV/EBITDA	24.65	4.29	11.73	NA	NA	13.01
PEG Ratio	NA	0.86	2.19	3.17	NA	NA
Price/Book (P/B)	0.94	1.06	2.67	1.00	0.42	1.02
Price/Cash Flow (P/CF)	10.61	3.33	10.55	3.83	1.45	20.48
P/E (F1)	106.50	12.42	18.18	10.52	10.65	NA
Price/Sales (P/S)	2.28	0.98	2.08	NA	NA	0.57
Earnings Yield	0.94%	7.58%	5.38%	9.50%	9.47%	-3.92%
Debt/Equity	0.05	0.98	0.70	0.05	0.09	0.00
Cash Flow (\$/share)	0.40	2.67	7.01	10.20	4.45	0.10
Growth Score	F	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	-2.26%	0.22%	10.92%	NA	NA	33.29%
Proj. EPS Growth (F1/F0)	-73.08%	5.41%	-3.36%	-0.27%	14.15%	NA
Curr. Cash Flow Growth	5.19%	3.29%	5.93%	3.59%	8.51%	-66.29%
Hist. Cash Flow Growth (3-5 yrs)	-19.24%	-0.68%	8.55%	2.61%	-0.33%	131.58%
Current Ratio	1.07	1.04	1.24	1.15	0.41	2.07
Debt/Capital	4.53%	50.54%	42.78%	4.46%	8.13%	0.00%
Net Margin	-14.62%	6.73%	11.64%	NA	NA	-0.82%
Return on Equity	0.43%	9.80%	16.74%	NA	NA	-1.21%
Sales/Assets	0.26	0.53	0.54	NA	NA	0.95
Proj. Sales Growth (F1/F0)	-10.56%	0.00%	-0.14%	-2.63%	-0.85%	-6.28%
Momentum Score	F	-	-	A	B	B
Daily Price Chg	6.48%	1.98%	4.04%	-0.03%	2.55%	2.51%
1 Week Price Chg	16.77%	5.62%	16.01%	0.43%	7.41%	47.50%
4 Week Price Chg	30.98%	17.60%	18.93%	24.73%	23.85%	54.55%
12 Week Price Chg	-35.89%	-21.38%	-19.39%	-12.03%	-25.46%	-11.69%
52 Week Price Chg	-53.64%	-24.52%	-11.34%	-19.02%	-48.23%	-45.74%
20 Day Average Volume	6,407,473	298,944	3,220,598	1,576,897	691,945	565,451
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-171.43%	-0.96%	-7.09%	2.34%	-1.63%	0.00%
(F1) EPS Est 12 week change	-171.43%	-9.17%	-9.32%	-5.24%	-22.44%	-214.29%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-10.68%	NA	NA	0.00%

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	F
Momentum Score	F
VGM Score	F

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.

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