

BlackBerry Limited (BB)

\$4.66 (As of 07/28/20)

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:C

Value: F

Growth: B

Momentum: C

Summary

BlackBerry is well poised to benefit from its robust IoT business with healthy revenue growth and augmented market share in the industry vertical. It is capitalizing on the secular trends of securing and connecting endpoints. The cybersecurity services company continues to invest in product development and go-to-market strategy to drive long-term sustainable growth. The acquisition of Cylance enhanced its operations as it provided additional cybersecurity capabilities with AI and ML technologies, while supporting its UEM and QNX businesses. However, the company is facing macro challenges in the auto and other embedded sectors. High R&D expenses for new product launches and technological obsolescence are major headwinds. Due to uncertainties triggered by the COVID-19 pandemic, BlackBerry did not provide a financial outlook for fiscal 2021.

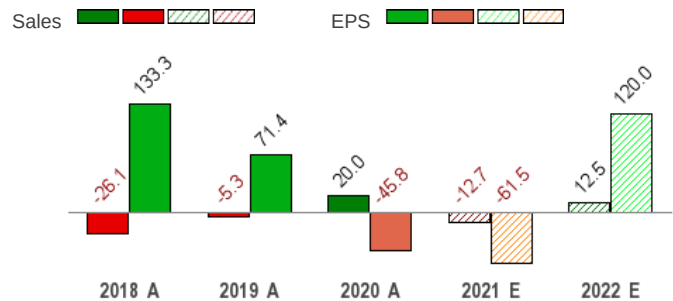
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$7.76 - \$2.70
20 Day Average Volume (sh)	3,188,155
Market Cap	\$2.6 B
YTD Price Change	-27.0%
Beta	1.50
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Wireless Non-US
Zacks Industry Rank	Bottom 20% (203 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	200.0%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	09/22/2020
Earnings ESP	0.0%
P/E TTM	39.1
P/E F1	93.2
PEG F1	1.8
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,079 E
2021	214 A	239 E	233 E	289 E	959 E
2020	267 A	261 A	280 A	291 A	1,099 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$0.11 E
2021	\$0.02 A	\$0.01 E	\$0.01 E	\$0.05 E	\$0.05 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 07/28/2020. The reports text is as of 07/29/2020.

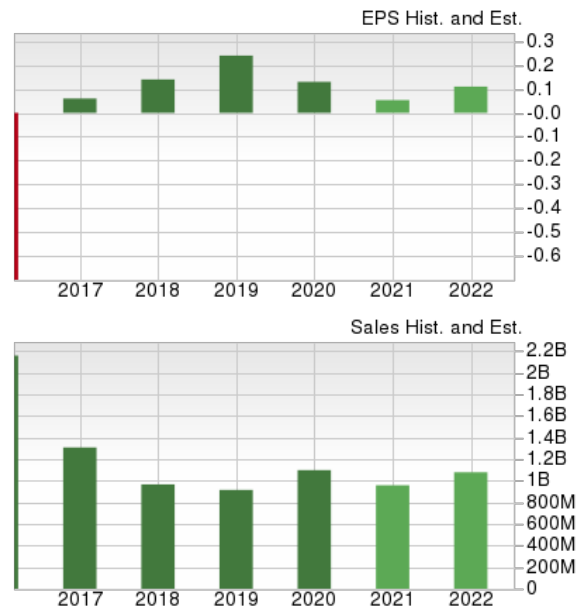
Overview

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 among hardware, programs, mobile apps and the Internet of Things.

BlackBerry provides intelligent security software and services to enterprises and governments around the world. It secures more than 500 million endpoints including 175 million cars. The company leverages its extensive technology portfolio to offer best-in-class security, safety and reliability to enterprise customers in growing segments of the cybersecurity, connected transportation, healthcare, financial services and government markets.

The company's goal is to remain a leader in regulated industries and other core verticals by continuing to extend the functionality of its secure BlackBerry Spark software platform through organic investments as well as strategic acquisitions and partnerships. The company intends to drive revenue growth and achieve margins that are consistent with those of other enterprise software companies.

By product and service type, Software and Services generated 71.8% of total revenues in first-quarter fiscal 2021, and Licensing and Other contributed 28.2%. Geographically, North America has contributed 72.8% of total revenues. Europe, Middle East and Africa have notched up 19.9% of the revenue pie. Other regions have yielded 7.3% of total revenues in first-quarter fiscal 2021.



Reasons To Buy:

- ▲ BlackBerry continues to invest in product development and go-to-market strategy to drive long-term sustainable growth. It is capitalizing on the secular trends of securing and connecting endpoints. The company 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 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. The addition of Cylance 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.
- ▲ As of May 31, 2020, the company had \$312 million in cash and equivalents with \$111 million of operating lease liabilities compared with the respective tallies of \$377 million and \$120 million at the end of the prior quarter. BlackBerry currently has a debt-to-capital ratio of 0.24 compared with 0.62 of the sub-industry. This signifies that the company is more likely to fulfil debt obligations in the near term. Although its cash ratio has declined 1.2% sequentially to 0.80, free cash flow yield rate has increased from 0.49% in fourth-quarter fiscal 2020 to 1.85% in first-quarter fiscal 2021. This indicates that the company is more likely to have enough cash flow to meet its financial obligations. It is yet to be seen whether BlackBerry can continue to maintain healthy momentum amid disruptions caused by the COVID-19 pandemic.

BlackBerry continues to invest in product development and go-to-market strategy to drive long-term sustainable growth. It is capitalizing on the secular trends of securing and connecting endpoints.

Reasons To Sell:

- ▼ BlackBerry is currently facing macro headwinds in the auto and other embedded sectors. Due to uncertainties stemming from the COVID-19 pandemic, the company did not provide a financial outlook for fiscal 2021. 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.
- ▼ 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.

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Last Earnings Report

BlackBerry Q1 Earnings Beat Estimates, Revenues Fall Y/Y

BlackBerry reported decent first-quarter fiscal 2021 (ended May 31, 2020) results, with adjusted earnings beating the Zacks Consensus Estimate. The cybersecurity software and services company is capitalizing on the secular trends of securing and connecting endpoints.

In the quarter, BlackBerry QNX was impacted by macro headwinds in the auto and other embedded sectors. On the enterprise front, the company saw healthy demand for BlackBerry's security, business continuity and productivity solutions in a remote working environment.

Quarter Ending **05/2020**

Report Date	Jun 24, 2020
Sales Surprise	2.39%
EPS Surprise	200.00%
Quarterly EPS	0.00
Annual EPS (TTM)	0.12

Bottom Line

On a GAAP basis, net loss in the quarter was \$636 million or loss of \$1.14 per share compared with a net loss of \$35 million or loss of 9 cents per share in the prior-year quarter. The deterioration was mainly caused by higher operating loss.

However, non-GAAP net income in fiscal first-quarter came in at \$12 million or 2 cents per share compared with \$5 million or 1 cent per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 4 cents.

Revenues

Quarterly total GAAP revenues declined 16.6% year over year to \$206 million. This was primarily due to lower software and service as well as licensing revenues. Non-GAAP revenues in fiscal first-quarter dropped 19.9% to \$214 million. However, the top line surpassed the consensus estimate of \$209 million.

Other Details

Gross profit fell to \$143 million from \$177 million in the year-ago quarter, primarily due to lower revenues. Total operating expenses increased to \$788 million from \$213 million. This was caused by a non-cash, one-time goodwill impairment charge of \$594 million. Operating loss was \$645 million compared with a loss of \$36 million in the prior-year quarter.

Cash Flow & Liquidity

In first-quarter fiscal 2021, BlackBerry utilized \$31 million of net cash in operating activities compared with a cash utilization of \$64 million in the year-ago quarter. As of May 31, 2020, the company had \$312 million in cash and equivalents with \$111 million of operating lease liabilities compared with the respective tallies of \$377 million and \$120 million at the end of the prior quarter.

Outlook

Due to uncertainties stemming from the COVID-19 pandemic, BlackBerry did not provide a financial outlook for fiscal 2021.

Recent News

On Jun 23, 2020, BlackBerry stated that its flagship QNX software is deployed in more than 175 million vehicles around the world. The feat marks an increase of 25 million cars since the company reported its automotive footprint in June 2019. BlackBerry's QNX technology includes QNX Neutrino OS, QNX Platform for ADAS, QNX OS for Safety, QNX CAR Platform for Infotainment, QNX Platform for Digital Cockpits, QNX Hypervisor 2.0 and QNX acoustics middleware. Leading automakers, including Toyota, General Motors and Honda, use the QNX software in their advanced driver assistance, digital instrument clusters, connectivity modules, handsfree and infotainment systems.

On May 19, BlackBerry announced that it has launched new bundles for its Spark product range — BlackBerry Spark Suites — to curb cyber breaches and help enterprise customers manage their security and endpoint needs. The platform leverages best-in-class security capabilities to protect sensitive data and enable a Zero Trust security environment, thereby enhancing cyber protection. Moreover, the latest move is expected to ensure utmost security and productivity, especially at a time when cyber threats are growing exponentially.

On Apr 6, 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.

Valuation

BlackBerry shares are down 36.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 19.1% over the past year, but stocks in the Zacks Computer and Technology sector are up 21.6% in the same time frame.

The S&P 500 Index is up 6.9% in the past year.

The stock is currently trading at 2.81X trailing 12-month EV/EBITDA, which compares to 8.48X for the Zacks sub-industry, 12.88X for the Zacks sector and 11.95X 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 3.68X 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	2.81	8.48	12.88	11.95
	5-Year High	34.95	23.18	13.33	12.85
	5-Year Low	2.63	4.08	7.59	8.25
	5-Year Median	13.36	15.14	10.87	10.88
P/B TTM	Current	1.36	2.3	5.9	4.4
	5-Year High	3.09	4.32	6.11	4.56
	5-Year Low	0.64	0.69	3.16	2.83
	5-Year Median	1.74	2.05	4.39	3.71
P/S F12M	Current	2.59	0.77	3.88	3.55
	5-Year High	8.71	1.58	3.88	3.55
	5-Year Low	1.29	0.73	2.32	2.53
	5-Year Median	3.47	1.05	3.14	3.02

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (203 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
PLDT Inc. (PHI)	Outperform	2
China Mobile Hong Kong Ltd. (CHL)	Neutral	3
China Unicom Hong Kong Ltd (CHU)	Neutral	3
Ceragon Networks Ltd. (CRNT)	Neutral	3
KT Corporation (KT)	Neutral	1
Orange (ORAN)	Neutral	3
Millicom International Cellular SA (TIGO)	Neutral	3
Turkcell Iletisim Hizmetleri AS (TKC)	Neutral	4

Industry Comparison Industry: Wireless Non-us				Industry Peers		
	BB	X Industry	S&P 500	CHL	CHU	CRNT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	A	F
Market Cap	2.61 B	7.07 B	22.74 B	140.18 B	16.92 B	213.76 M
# of Analysts	2	1	14	3	2	1
Dividend Yield	0.00%	2.52%	1.8%	5.84%	3.40%	0.00%
Value Score	F	-	-	A	A	D
Cash/Price	0.34	0.23	0.07	0.43	0.00	0.21
EV/EBITDA	27.08	4.24	13.03	1.83	1.19	15.79
PEG Ratio	1.80	1.06	3.03	0.94	0.80	NA
Price/Book (P/B)	1.36	1.36	3.17	0.87	0.37	1.41
Price/Cash Flow (P/CF)	11.66	4.23	12.05	3.36	1.25	26.75
P/E (F1)	93.20	12.00	21.90	8.95	8.99	NA
Price/Sales (P/S)	2.61	1.36	2.38	NA	NA	0.79
Earnings Yield	1.07%	7.76%	4.30%	11.19%	11.21%	-7.55%
Debt/Equity	0.00	0.98	0.76	0.05	NA	0.00
Cash Flow (\$/share)	0.40	2.60	7.01	10.20	4.43	0.10
Growth Score	B	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	-6.96%	4.74%	10.85%	NA	NA	33.29%
Proj. EPS Growth (F1/F0)	-58.97%	4.33%	-7.56%	2.87%	16.04%	NA
Curr. Cash Flow Growth	5.19%	3.59%	5.47%	3.59%	7.81%	-66.29%
Hist. Cash Flow Growth (3-5 yrs)	-19.24%	-0.68%	8.55%	2.61%	-0.46%	131.58%
Current Ratio	1.07	1.07	1.31	1.15	0.41	1.88
Debt/Capital	0.00%	49.43%	44.41%	4.46%	8.13%	0.00%
Net Margin	-75.38%	6.14%	10.45%	NA	NA	-3.68%
Return on Equity	0.88%	6.08%	15.13%	NA	NA	-6.69%
Sales/Assets	0.27	0.56	0.54	NA	NA	0.91
Proj. Sales Growth (F1/F0)	-12.78%	0.00%	-2.00%	1.30%	2.70%	-14.42%
Momentum Score	C	-	-	C	A	F
Daily Price Chg	0.86%	0.47%	0.48%	-0.41%	-1.43%	3.11%
1 Week Price Chg	-3.13%	-1.59%	0.37%	-1.91%	-4.10%	6.20%
4 Week Price Chg	-2.29%	4.91%	5.61%	2.24%	1.28%	26.79%
12 Week Price Chg	10.09%	9.43%	13.36%	-11.48%	-9.79%	19.91%
52 Week Price Chg	-36.10%	-12.06%	-3.30%	-20.93%	-44.48%	-11.07%
20 Day Average Volume	3,188,155	125,946	1,917,592	1,132,924	564,957	539,208
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.54%	3.65%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.21%	2.78%	4.83%	0.00%
(F1) EPS Est 12 week change	-20.00%	-6.87%	-2.00%	2.87%	4.83%	-150.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	NA	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
Growth Score	B
Momentum Score	C
VGM Score	C

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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