

Blackberry Ltd. (BB, \$9.02)

Company Overview

Blackberry Limited, an enterprise software and service company, engages in the development, integration, and sustainment of software platforms and services worldwide. It operates through four main revenue segments: Enterprise Software and Services (ESS), Business Technology Solutions (BTS), Licensing and Intellectual Property (LIP), and the recently acquired cybersecurity unicorn, Cylance. Revenue is spread relatively evenly between the ESS, BTS, and LIP segments. Cylance is their smallest but fastest growing business empirically.

Upside

Licensing and Intellectual Property segment is undervalued

- The market perceives Blackberry's licensing deals to usually consist lump sum payments, but many of the deals involve royalties. Most of the revenue in this segment is recurring, and it is projected to grow 20% in FY 2019.
- Segment includes Blackberry Messenger, which dominates market share in Indonesia. Indonesia will have a larger population than the US by 2025, and their smartphone market is predicted to grow acceleratively through at least 2019.
- LIP is a very profitable segment because of its low cost of goods sold

Value-creating products in growing markets will drive revenue growth

- BTS and ESS segments invest heavily in securing and managing internet of things (IOT) devices. A lack of security and standardized management are considered the two largest barriers to IOT adoption.
- The Cylance acquisition will add roughly \$150 million in revenue in FY 2019. They are one of the fastest companies ever to reach \$100 million in annual revenue
- Increases in revenue growth rates drive twice as much market-capitalization gain as margin improvements for companies with less than \$4 billion in revenues.

Risks

- Losing market share in UEM market to lower-cost competitors
 - Mitigation: Blackberry will hold its own in UEM with a leading array of features and security. The Cylance acquisition will boost Blackberry's sales in UEM.
- Poor sales and marketing efforts
 - Blackberry's marketing budget had to transition to sell their rapidly evolving product line. Now that Blackberry's product portfolio is rounded out, the company will likely focus on effectively leveraging its sales and marketing spend.
- Slow growth in IOT market or IOT end markets
 - Company is geographically diversified, so it faces less downside due to idiosyncratic factors
 - Products are designed to propel the IOT market forward, creating a virtuous cycle of improvement and adoption