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BlackBerry Results Miss Expectations

By BEN DUMMETT

Company pegs growth to mobile-device-management software



A BlackBerry Q10 smartphone. BlackBerry reported quarterly results Tuesday. *PHOTO: REUTERS*

[BlackBerry](#) Ltd. **BBRY -1.02 %** signaled on Tuesday that its efforts to transform itself into a software company focused on mobile security are on track, though its financial results continued to show signs of strain.

Stung by the dramatic drop in fortunes of its smartphone business, the Canadian company is betting on device-management software and phones aimed at a niche business-customer market.

A sharp revenue decline and underwhelming earnings in its fiscal first quarter suggest this effort remains a work in progress. But the company generated surprisingly strong revenue from licensing deals and sales of software that enables companies to better manage their employees' mobile devices.

Overall revenue tumbled 32% from a year earlier to \$658 million in the quarter ended May 30 from \$966 million a year earlier. Analysts were expecting \$683 million, according to Thomson Reuters.

Software and technology licensing sales showed a strong upward trend, rising to \$137 million from \$74 million in the preceding fiscal fourth quarter.



BlackBerry is betting on phones aimed at a business-customer market. *PHOTO: AARON HARRIS/REUTERS*

The results were a sign that BlackBerry's mobile-device-management software is gaining traction with enterprise customers. BES12, which allows companies to manage BlackBerrys, iPhones and Android-powered smartphones used by employees on the corporate network, was launched in November.

The company said Tuesday that it had 2,600 customer contracts for BES12 and other software in the latest quarter. That included upgrades from earlier software versions.

BlackBerry has set a target of \$500 million in software sales for its current fiscal year.

Still, in New York, BlackBerry shares were off 4% at \$8.84 in afternoon trading. Some analysts said BlackBerry's grouping of revenue from technology licensing with software sales raises questions over the contribution from the mobile-security software business.

Licensing revenue tends to be more unpredictable than the core BES sales because it isn't always recurring, said **Desmond Lau**, an analyst at **Veritas Investment Research**.

For the first quarter, BlackBerry posted profit of \$68 million, or 13 cents a basic share, up from \$23 million, or four cents a share, a year earlier.

The latest results included noncash income associated with a change in the fair value of some debentures as well as restructuring charges.

Adjusted to exclude items, BlackBerry recorded a loss of five cents a share, narrower than a year-earlier loss of 11 cents. Analysts, however, expected BlackBerry to post a loss of three cents a share in the latest period.

The adjusted loss reflected increased costs to train sales staff and the cost of acquisitions meant to boost software revenue. In the latest quarter, BlackBerry acquired a California-based startup called WatchDox

Ltd. that develops software allowing companies to control how employees edit, copy, print or forward files. It was the company's third small acquisition since September.

"These investments are prudent as we transition to growing a bigger software business," Chief Executive John Chen told analysts during a conference call.

BlackBerry's turnaround plan also includes making money from its portfolio of patents. To that end, BlackBerry on Tuesday announced a licensing pact with [Cisco Systems](#) Inc. **CSCO 0.31 %** that will allow each company to use the other's technology. BlackBerry said it would receive a licensing fee from Cisco, but that terms were confidential. Mr. Chen said the company signed a similar deal with another technology company but declined to provide more details.

BlackBerry once dominated the smartphone market but its share is now less than 1% after a failed attempt in 2013 to compete against [Apple](#) Inc. **AAPL 0.51 %** and [Samsung Electronics](#) Co. **SSNHZ 0.00 %** in the consumer segment. Still, BlackBerry remains committed to selling devices. Since last September, it has released a string of new phones including the square-shaped Passport; the Classic, which is modeled after BlackBerry's once popular Bold device; and the Leap, all of which are meant to appeal to different segments of corporate and professional users.

None of the devices are big winners, but sales of the Passport are "steady," while the Classic is starting to gain some traction, Mr. Chen said. Prospects for the Leap are unclear because it was only launched in April, he said.

Mr. Chen joined the company in November 2013, laying out an eight-quarter turnaround plan focused on cost-cutting, outsourcing device manufacturing to stem losses, and selling new software to manage smartphones on corporate networks.

BlackBerry said it recognized hardware revenue on fewer devices in the latest quarter—1.1 million devices versus 1.3 million in the fourth quarter—but achieved a higher average selling price of \$240 for each device, up from \$211 in the fourth quarter. It signed new device-manufacturing outsourcing agreements with [Wistron](#) Corp. **3231 0.22 %** and [Compal Electronics](#) Inc. **2324 1.68 %** to complement its existing deal with [Foxconn Technology Group](#). **2354 0.46 %** Those deals are allowing it to further cut smartphone production costs to help make the device business profitable.

BlackBerry said it is still targeting "sustainable non-GAAP profitability" sometime in its current fiscal year. The company said its cash pile increased by \$50 million to \$3.32 billion at the end of the latest quarter.

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