

BlackBerry Limited

First Quarter Fiscal Year 2022 Results Conference Call

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PRESENTATION

Operator

Operator: Good afternoon and welcome to the BlackBerry First Quarter and Fiscal Year 2022 Results Conference Call. My name is Jesse and I'll be your conference moderator for today's call. During the presentation, all participants will be in listen-only mode. We will be facilitating a question-and-answer session towards the end of the conference. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn today's call over to Tim Foote, BlackBerry Investor Relations. Sir, please go ahead.

Tim Foote

Thank you, Jesse. Good afternoon and welcome to BlackBerry's first quarter fiscal 2022 earnings conference call. With me on the call today are Executive Chair and Chief Executive Officer, John Chen and Chief Financial Officer, Steve Rai.

After I read our cautionary notes regarding forward-looking statements, John will provide a business update, and Steve will review the financial results. We will then open the call for a brief Q&A session. This call is available to the general public via call-in numbers and via webcast in the Investor Information section at blackberry.com. Replay will also be available on the blackberry.com website.

Some of the statements we'll be making today constitute forward-looking statements and are made pursuant to the Safe Harbor provisions of applicable US and Canadian securities laws. We'll indicate forward-looking statements by using words such as expect, will, should, model, intend, believe, and similar expressions. Forward-looking statements are based on estimates, and assumptions made by the company in light of its experience and its perception of historical trends, current conditions, and expected future developments, as well as other factors that the company believes are relevant.

Many factors could cause the company's actual results or performance to differ materially from those expressed or implied by the forward-looking statements. These factors include the risk factors that are discussed in the company's annual filings and MD&A, including the COVID-19 pandemic. You should not place undue reliance on the company's forward-looking statements. The company has no intention and undertakes no obligation to update or revise any forward-looking statements, except as required by law.

As is customary during the call, John and Steve will reference non-GAAP numbers in their summary of our quarterly results. For a reconciliation between our GAAP and non-GAAP numbers, please see the earnings press release and supplement published earlier today, which are available on the EDGAR, SEDAR, and blackberry.com websites. And with that I will now turn the call over to John.

John Chen

Thank you, Tim. Good afternoon everybody and thank you all for joining us today. The main headline for this quarter is that we have organized our Software and Services business around our two biggest market opportunities, namely IoT and Cybersecurity.

In the past few years, we have done a good job in product development. Last year, we launched 59 new products and the year before over 30.

Later I'll discuss more about the XDR product that we have launched this quarter and I'll provide you an update on BlackBerry IVY.

As you all know, at the same time as delivering on products, many of you know that we've been investing in our go-to-market as well.

In the last number of years, especially in recent quarters, we have turned up the noise of our marketing, expanded our channel and partnerships and invested more feet on the street.

Now we're pivoting the organization more heavily towards the market by creating two business units, Cybersecurity and IoT.

By aligning the Cybersecurity and IoT business units to their main market opportunities, we will drive more focus and accountability. We will also improve our agility, being able to react to the fast-changing needs of the market and needless to say, both have their own business dynamics.

In order to accomplish this, we have recruited a number of new talents, especially with deep IoT experience.

This includes Mattias Eriksson, who joined us from HERE Technologies as the President of the IoT business unit. Mattias brings over two decades of relevant industry experience, and will focus on strategy,

operations and driving growth in the IoT business. BlackBerry President and Chief Operating Officer, Tom Eacobacci will focus on leading the Cyber Security business unit. Tom has deep enterprise software experience and is a perfect person to engineer the growth of this business.

From a financial reporting perspective, beginning this quarter we will provide revenue and gross margin by business unit as well as other selected metrics.

We believe that this additional color will help investors gain better understanding of the underlying performance of the business units, ultimately driving shareholder value.

Let me start by reviewing with you the IoT business unit. This business, which is primarily QNX but also includes IVY, Certicom, Jarvis and Radar, had a good strong quarter. Revenue came in at \$43 million, increasing 48% year-over-year. Of course, a year ago there was the pandemic meaning a hard-hit quarter.

Gross margin was 84%. IoT ARR was \$86 million. This growth in both revenue and ARR was achieved despite the global ship shortage. The shortage continues to be a significant factor in the auto market in the near term and there is no doubt currently impacting the production driven revenue of QNX. The scale of the impact varies by region and by OEM. The impact looks to be greatest in North America and less so in Europe and Asia.

One of our largest customers in North Americas has indicated that production in Q2 will be impacted or may be impacted by up to 50% but others are less severe.

Generally speaking, Q2 appears to be the low point with Q3 improving and Q4 further still.

The impact also looks to be smaller than that of the pandemic last year.

Currently, we don't see a need to change our revenue outlook for the year, but we'll continue to assess the impacts with our customers, and we'll update you again next quarter.

Just as a reminder, our IoT revenue outlook remains at \$180 million to \$200 million for the fiscal year.

In contrast to the production-based royalties however, revenue from design activities i.e. the developer seats and professional services, is strong. Unlike Q1 of last fiscal year when COVID was becoming a major issue, confidence among OEM appears high and we've seen a lot of design activities in progress.

We are particularly pleased with two design wins this quarter. First one was with Volvo Group, who selected QNX's RTOS or real time operating system, and Hypervisor on a whole truck basis, meaning that our technology will power multiple ECUs throughout the truck.

Second, we further strengthened our position in the EV market with a design win with the Shanghai-based WM Motor. The QNX OS and Hypervisor will power their all electric W6 SUV vehicle.

In total, this quarter we had 28 new design wins, with 17 in Auto and 11 in the General Embedded Market. In auto, along with those we just mentioned, notable design wins also included Bosch and Visteon. These design wins span Hypervisor, digital cockpits, multiple-socket ADAS platform and high-definition maps.

On the GEM front, the wide range of application won in the quarter include surgical robotic arm, an industrial 3D printer as well as a nuclear power station.

Design wins such as Volvo demonstrate two key secular trends that QNX business benefits from:

The first one is the consolidation of lower compute power ECUs towards fewer, higher power chipsets, such as the ARMV8 and the x86 64-bit chipsets.

It is on these higher-powered chips that QNX operates and as this consolidation continues, it gives QNX ever more opportunity in the car.

Secondarily, there is a trend of increasing software content per vehicle, particularly in safety-critical system, such as ADAS, Gateways and Digital Cockpits.

This is of course where QNX shines, with the highest level of safety certifications and has the strongest competitive advantage.

Our strategy to focus on safety critical system, which we put in place a number of years ago, has allowed the business to benefit from these trends, ultimately leading to a higher average revenue per car.

This strategy is delivering higher value design wins and with it, royalty revenue backlog. The backlog metric is calculated using contracted prices and future production volume estimates provided by the customer when the design is awarded. Its important to note that it is based on the customer's estimates.

It's important to note that this is the customers estimate. The backlog increased from \$450 million last Q1 to \$490 million this first quarter.

This is a 9% increase year-on-year, despite the pressure on new auto designs over the last 12 months.

Strategy Analytics, a leading independent research firm, recently published that QNX software is now embedded in over 195 million vehicles. That is up from 175 million confirmed the year before.

Now for a brief update on progress with IVY. Driving the IVY opportunity forward remains one of our key priorities and we are working closely with AWS to achieve this. Product development remains on track and in line with the roadmap. We remain on target for the early access version to be available in October and for the production version to start shipping next February.

Customer discussion and workshops are continuing, and we remain positive about how things are progressing. This quarter an additional five automakers engaged to explore IVY. This means that we've now engaged with almost all of our major QNX customers.

We recently announced the launch of the IVY Advisory Council. Industry leaders from a number of key verticals have signed up, including Telus Telecommunications, one of the big three telecomms companies in Canada, Geico Insurance who you see a lot on TV with their commercials, Here Maps and Cerence, who is in the auto voice recognition business.

Development of relevant and exciting new use cases for IVY platform remains a key priority and we believe that the Council could greatly assist us with this.

Delivering relevant apps and experience provide a higher-engagement model with both the consumer as well as the enterprise.

Last quarter we launched the IVY Innovation Fund, established to invest and start-ups adopting the IVY platform. Since then, we've had a great response from the market, and we have reviewed over 200 prospective companies.

We recently announced our first investment in an exciting startup called Electra Vehicles. Unlike most other startups in a battery management space, Electra aims to not only analyze activity, but to also actively manage the battery operation using artificial intelligence.

Vehicle sensor data on IVY will feed their AI driven platform, dynamically determining factors such as driving behavior and environmental conditions to optimize battery performance.

In summary, IVY is progressing well, and we remain very focused on the various elements to make this a strong growth business and a success.

Now let me move to Cybersecurity business unit. This business unit includes our Spark Endpoint Security and Endpoint Management products - UEM - as well as AtHoc, the Critical Event Management software and Secusmart secure voice and text product.

GAAP revenue for the quarter was \$107 million. As mentioned during the last earnings call, we now will report GAAP-based revenue only. Gross margin was 57%. ARR was \$364 million and dollar-based net retention was 94%.

Over the last couple of years, the prevailing narrative has been that detection and remediation are the most important part of cyber security.

However, the founding principle of Cylance and one of our main reasons that we acquired it, is that prevention is far better than cure. And that's why we're a market leader in EPP. Stopping threats before they execute and start doing harm is clearly a better strategy than trying to shut them down afterwards.

This quarter we demonstrated the strategy clearly with our next-generation AV product, named Protect, blocking the DarkSide ransomware, believed to have caused the Colonial Pipeline cyber incident. In fact, the 2015 version of Protect also blocked most of the variants in the same ransomware, six years ahead of time.

We have the most mature AI engine in the space and the ability to block ransomware years ahead of time, without the need for updates or even internet connectivity. This shows the power of our prevention-first strategy.

Protect was also shown to prevent other high-profile threats such as a Conti ransomware, Nobelium, REvil and others.

In addition to large enterprise customers, this AI-driven automated protection also resonates with small and medium-size customers that don't have the resources to establish the SOC, meaning the security operation centers. We see strong sequential growth in SMB new business pipeline of around 18%.

In the quarter, we announced two significant new products, which are part of the Extended Detection and Response, or “XDR” strategy, kind of the latest evolved market from EDR.

The first product is BlackBerry Gateway. With employees based remotely and not in the office, as well as mobile becoming more prevalent, the traditional “moat and castle” model of network access is no longer efficient or effective. In fact, VPN users, once authenticated, often has access to the entire network, including on-prem and SaaS applications for the length of their session.

BlackBerry Gateway is a Zero Trust Network Access product that uses the Cylance AI to continuously authenticate network activity. The cloud AI evaluates over 30 risk factors, or we named as “vectors”, such as downloading behavior, DNS query, time of day, etc. to determine unusual activity.

The second product released this quarter is Optics 3.0. It’s our latest version of our Endpoint Detection and Response, or namely “EDR”. With this new version, the AI driven engine remains at both the edge and in the cloud, allowing near real-time response both off-line and online.

This continues to be a differentiator for us. However, importantly, this new cloud-enabled product will allow even data to be stored centrally in a cloud-based data lake. This together with the new search engine and a query language allows threat hunters to gain greater visibility.

Switching to a Sales front, UEM revenue in Q1 was down year-over-year in part due to the Work-From-Home ramp-up that we saw last year but didn’t repeat.

Let me reassure you that the UEM remains an important part of our cyber business and we remain fully committed to it.

In the quarter, we continued to secure business with highly regulated customers. Let me start with financial services. In financial services, these included Mitsubishi UFJ, Bank of China, Banque de France and Union Bank of India.

In the government and healthcare sector, we conducted business with the Government of Canada, the UK’s NHS Health Services and University Health Network Canada. The United States Department of Energy and Department of Commerce, the Netherlands Ministry of General Affairs, the Australian Department of Environment and Energy. Also, the White House Communications Agency, US Department of State, Department of Treasury and the United States Department of Defense.

Also in government, in the United States Federal government, we have increased the number of AtHoc cloud FedRAMP users by 6% sequentially. From a market perspective, this quarter we gained new business with partnerships we recently announced with Verizon, Vodafone as well as Telus.

With Microsoft, we have integrated our Critical Event Management product, Alert, with Microsoft Teams. Further, as we communicated in the past, Cyber Suite, our UES platform, is on target to integrate with Intune by the end of August.

This quarter we significantly stepped up our sales hiring. The market for high quality talent is competitive and it has taken a little longer to increase our head count, but we currently expect to end Q2 with around 23% more sales rep than at the start of the year.

This expanded reach will help BlackBerry to be in more competitive bakeoffs, where products stand up well. With the recent increase of sales hiring, many of which start during Q2, billings growth is likely to be more heavily weighted to the back half of the year. Therefore, revenue is likely to be at the lower end of our \$495 million to \$515 million range that we gave last quarter.

Moving on to licenses. Revenue for the quarter was \$24 million, which is better than expected because some business came in early. Gross margin was 75%. The negotiation for a sale of large portion of the patent portfolio are ongoing and good progress has been made.

In fact, we have started negotiating the definitive agreement.

Revenue for Q2 is likely to be in the range of \$10 million to \$15 million for the IP as stated last quarter. So this has not changed. This is due to the monetization activities being limited by the ongoing negotiations.

In terms of the full year outlook for the Licensing business, should the sale not complete, we expect revenue to be around \$100 million.

Let me now hand the call over to Steve.

Steve Rai – Chief Financial Officer

Thanks, John. So my comments on our financial performance for the fiscal quarter will be in non-GAAP terms unless otherwise noted. Please refer to the supplemental table in the press release for the GAAP and non-GAAP details.

As John mentioned earlier, starting this quarter we're no longer adjusting GAAP revenue for deferred revenue acquired. This means the GAAP and non-GAAP revenue will be the same going forward and comparatives have been conformed accordingly.

We delivered first quarter total company revenue of \$174 million. The first quarter total company gross margin was 66%. Our non-GAAP gross margin excludes stock compensation expense of \$1 million.

First quarter operating expenses were \$138 million. Our non-GAAP operating expenses exclude \$32 million in amortization of acquired intangibles, \$6 million in stock compensation expense and a \$4 million fair value adjustment on the convertible debentures, which is a non-cash accounting adjustment largely driven by market conditions.

The first quarter non-GAAP operating loss was \$23 million, and the first quarter non-GAAP net loss was \$27 million.

Non-GAAP earnings per share was a \$0.05 loss in the quarter and our adjusted EBITDA was negative \$6 million this quarter, excluding the non-GAAP adjustments previously mentioned.

I'll now provide a breakdown of our revenue in the quarter. Cyber Security revenue was \$107 million and IoT revenue was \$43 million.

Software product revenue remained in the range of 80% to 85% of the total, with professional services comprising the balance.

The recurring portion of software product revenue was approximately 90%.

Licensing and other revenue as John mentioned was \$24 million. This is a little higher than expected as deals came in early. The monetization activity remains limited while negotiations for the potential IP sale continue.

Now moving to our balance sheet and cash flow performance. Total cash, cash equivalents and investments were \$769 million at May 31, 2021, a decrease of \$35 million during the quarter. Our net cash position decreased to \$404 million at the end of the quarter.

First quarter free cash flow was negative \$35 million. Cash generated from operations was negative \$33 million and capital expenditures were \$2 million.

Bear in mind the first quarter of our fiscal year typically has a higher cash requirement due to payment of annual bonuses and other demands at this time.

That concludes my comments and I'll now turn the call back to John.

John Chen – Executive Chairman and Chief Executive Officer

Thank you, Steve. Before the Q&A, I'd like to update everybody on a few things. Although we have organized along go-to-market lines, there are a number of future high growth opportunities that our BlackBerry Labs is working on that harnesses the power of our entire technology portfolio.

The first is applying our AI/ML engine in IoT. One good example of this is using Cylance in the car. You may remember at CES a couple of years ago, we demonstrated an early version of how our Persona technology, that identifies inappropriate access from a user's behavior, can be applied to drivers of vehicles.

We also demonstrated how our Protect EPP can be used to protect the connected car from cyber threats. These are just two of the number of potential use cases that we're currently looking at.

The second is our data lake. Drawing data from an ever-increasing number of sources allow for greater visibility and determination of the real level of risk across an organization, essential to Zero Trust applications.

This applies not only to XDR but also the increasingly sensor-rich auto environment, autonomous drive and smart cities.

This centralization of data and insights through our data lake can enable whole new business models in the future.

The third area is related to the recent US SBOM, software bill of materials, the Executive Order that aims to secure the software supply chain.

This comes in light of the recent incidents including Solar Winds and the Colonial Pipeline threat intrusions. Combining products from our IoT products, including our Jarvis code scanning tool, our QNX embedded operating system and our Certicom cryptography, with our prevention-first AI-driven cyber security product and services, means BlackBerry offers a comprehensive approach to this issue.

We have begun working closely with various government and standard-setting bodies. So, before we open the line for Q&A, I would like to summarize the key messages again.

We have organized our Software and Services business around our key market opportunity, strengthening our management team in the process.

QNX made solid progress this quarter. We're pleased with the strong design activities and the pipeline of new design wins that saw royalty revenue backlog increased year-over-year.

We continue to demonstrate real progress of IVY, with tangible steps forward such as the launch of the Advisory Council, as well as the first investment by the Innovation Fund.

We launched two new important products as part of our XDR strategy and the AI-driven prevention-first approach continues to be our focus.

We're also increasing sales headcount and pipeline is growing, particularly for our new UES products. Our main focus is on growing the top-line, and therefore, we continue to increase investment in both our Software Business Units as we see double-digit billings growth this year.

Finally, we remain optimistic about the successful conclusion to the negotiations of the patent portfolio sale.

And with that I would like to ask Jesse to open the line for Q&A please.

QUESTION AND ANSWER SECTION

Operator

Thank you speakers. [Operator Instructions] Our first question is from the line of Daniel Chan of TD Securities. Your line is open.

Daniel Chan, TD Securities Inc

Hi, good evening.

John Chen

Hi Dan.

Daniel Chan, TD Securities Inc

Hi, John. So you stated that your QNX royalty revenue backlog increased to \$490 from \$450 last year. Over what period of time do you expect that backlog to be recognized over?

John Chen

Typically, the highest -- usually it's four to seven years and typically it peaks at four. Then it starts moving down towards the end of the life cycle of a car. Sometimes it extends more beyond that.

Daniel Chan, TD Securities Inc

Okay, that's helpful thanks. And you also talked about the IVY Advisory Council, can you talk about the level of commitment partners have agreed to, as part of this Council and whether you plan to include major OEMs in it?

John Chen

Yeah, it's a great question. But before I answer that question let me make one more comment on the backlog because I've also gotten some questions as to whether our backlog number is conservative. I would tell you that it is on the conservative side. And we get it from directly from the OEM when we win the design win and they give us an estimate. We also have not included professional services backlog and developer seats backlog. So, in the future when we have a very solid methodology - so that we just don't do a lot of guessing and we get a very grounded set of math - you will see that backlog number go up and we'll tell you all that we're going to include that. But that may take another couple of quarters.

And to go back to answer your question regarding the Advisory Council, they are there to help us to define use cases particularly in the verticals that they operate in, in which IVY could be of great help. And, I don't want to exclude any OEMs but I don't think OEMs would want to do that. They tend to do one-on-one with us directly, because this is obviously value-add that they don't want to share since it's all proprietary to themselves. I hope that makes sense.

Daniel Chan, *TD Securities Inc*

Yes, it does thank you.

John Chen

Sure.

Operator

Next question is from the line of Mike Walkley of Canaccord. Your lines now open.

John Chen

Hi Mike.

T. Michael Walkley, *Analyst, Canaccord Genuity LLC*

Hi John, thanks for taking my question. Yeah, I was hoping you could update us on BlackBerry UEM's strategy. I know there's some tough big comps because of the pandemic from last year, but could you just update us on the strategy that's still large piece of your Cyber security business unit?

John Chen

Yeah, that's a good question. So, our Spark platform is composed of UEM and UES. And UEM is very strategic to us because it is our gateway to a lot of our major customers who are completely relying on us on security. So, our strategy is to continue to expand our footprint in the regulated industry. And where the market is more price-sensitive in the non-regulated industries, we want to make sure that our UES platform, which is our endpoint security platform, connects to run on one of the largest install bases outside of regulated – i.e. Microsoft Intune. So, this is why we're excited about having the Intune connector released by the end of August, I believe yes, at the end of August.

So, basically the strategy is continue to expand the footprint that we have in the regulated verticals, like financial, healthcare, and government - that's very important to us. With UEM with its roadmap, the roadmap is highly geared towards security, certifications and compliance and so forth. And then the "bring your own device" or BYOD environment - that's kind of the road map UEM focuses on. And then UES is of course expanding on the Cybersecurity antivirus side. So, that's our strategy of how we approach the market.

T. Michael Walkley, *Analyst, Canaccord Genuity LLC*

Thank you, that's really helpful and just my follow-up question. Just on the gross margin by division - thanks for the updated business metrics. How should we think about gross margin trends for the businesses over time, particularly on the Cybersecurity business, where could those gross margins get to over time as the business ramps and any reason why it might have fallen a bit sequentially?

John Chen

Yeah. I think the best way to answer the question is that, especially Cybersecurity, we're trying to get to the enterprise software timeless model and we have not deviated from that. The gross margin ought to be, somewhere between 75% to 80%. I think that will be very good target to shoot for, for the cyber business.

T. Michael Walkley, Analyst, Canaccord Genuity LLC

And when these happened maybe get there from where you are today what will be that timeframe you think?

John Chen

Timeframe, I think probably a year out, if you want me to guess at that. Because as you recall, we actually have a lot of increase in head count, feet on the street, this coming quarter. In fact, our coming quarter ends in August. Some of them have committed to sign on and yet to start. And with that, if I give them the time of 9 to 12 months or 6 to 9 months getting up to speed, and at the same time cultivating the pipeline to make the sales cycle work, I think in about a year out I should see some good results from this class of incoming team members here.

T. Michael Walkley, Analyst, Canaccord Genuity LLC

Okay, that's helpful thanks for taking my questions.

John Chen

Sure.

Operator

Next question is from the line of Paul Treiber of RBC Capital Markets. Your line is now open.

John Chen

Hey Paul.

Paul Treiber, Analyst, RBC Dominion Securities, LLC

Hi. Thanks, and good afternoon. A follow-up to your question on sales, you mentioned in the outlook in the prepared remarks, that you expect bookings, double-digit bookings growth for the year. How should we think about the ramp or the trajectory over the year?

John Chen

I actually didn't get, Paul, I missed some part of your words, do you mind repeating?

Paul Treiber, *Analyst. RBC Dominion Securities, LLC*

Yeah. Bookings growth, how should we think about bookings growth over this coming year? How should we think about the ramp over the year relative to where we are now?

John Chen

As I said earlier, we just recently had a lot of increase of headcount in sales. So, the booking is mostly likely to be back ended this year, and then continue on for next year, obviously. So, I don't know whether that's the question you were asking.

Paul Treiber, *Analyst. RBC Dominion Securities, LLC*

Or in the rate of growth there, like where you're coming from and where you expect to go to?

John Chen

Yeah. We do – on bookings, we do expect it – towards the end of the year, we do expect a double-digit percentage growth.

Paul Treiber, *Analyst. RBC Dominion Securities, LLC*

Okay. That's helpful. On Cyber Security revenue for this quarter based on the numbers, the historical numbers and GAAP numbers did take a step-down, I think you mentioned UEM. Can you just elaborate on what you saw customers doing? I mean I imagine they purchased last year. Did they churn off, did they – can you just elaborate on what happened there?

John Chen

No. I think in general, it's quite steady and stable. We didn't see the growth that we're hoping for, but it will be forthcoming because we just released the EDR products, we talk about the cloud-to-cloud version, the latest Optics 3.0. We just released all these new products a quarter ago. So, we're seeing that pipeline being built up and just looking for them to come in to being billings and business. So, I don't see any major movement one way or the other. But people are interested in EDR. I believe that they should be interested more in Protect. That's our job to make sure that that message comes across, and the benefit of that could be demonstrated and I definitely think we can demonstrate it.

One thing you can look at - the BlackBerry-Cylance product combo. None of these major viruses have actually hit our user base. And so that tells you the power of our product.

Paul Treiber, *Analyst. RBC Dominion Securities, LLC*

Okay. Thank you. I'll pass the line.

John Chen

Sure.

Operator

Next question is from the line of Trip Chowdhry of Global Equities Research. Your line is now open.

John Chen

Hey. Hi, Trip.

Trip S. Chowdhry, Analyst, Global Equities Research, LLC

Thank you. Very good execution on the product front.

John Chen

Thank you.

Trip S. Chowdhry, Analyst, Global Equities Research, LLC

Two quick questions. First, regarding the battery management system. I was wondering, this is definitely an incremental market for you. There are three parts of the business model the way I look at. There could be a design win, there could be a production part of it in the software, and there could also be a subscription part of the software that is running and managing the batteries. So, among those three things, is it all the three components or is it only the software and subscription regarding the battery management software that QNX is running?

John Chen

Yeah, thank you Trip. So first off, it's a little early for me to answer the question. I have a preference. The preference is a usage-based revenue or a monthly subscription-type revenue. That will be my preference. Of course, that would have to be agreed upon with the OEM. Demonstrating IVY use cases is one of the most important things that we need to do in the next three to six months. There is a demo being put together. It would not be available until probably the end of this calendar year, as the full engineering team just started working on it. In the meantime, we'll try to figure out the question – the answer to the question that you posed. Again, I have a strong preference for this to be either usage-based or monthly recurring-based.

Trip S. Chowdhry, Analyst, Global Equities Research, LLC

Wonderful. The second question I have is regarding your exceptional machine learning models you have and currently, your Cylance machine learning AI models work only with your products. Are you exploring or do you think it makes a business sense to open up your machine learning models to, say, other OEMs or to other ISVs, and then charge for connection or charge per – like in APIs because your product mix is gateway security. I think that is very normal, and again, that's another incremental revenue opportunity you can get over a period of time. So I was just thinking, since you have the best training models available just licensing them or any other business model that can give more revenues to you. Your thoughts on that would be really appreciated, and again, very good execution on the product front.

John Chen

Thank you. We haven't thought about licensing those models to other applications. Maybe I'll say that. However, we are licensing that – well, licensing is a wrong word, sorry. We are embedding the lightweight agent in IoT devices, including medical equipment and industrial equipment. Some of those other technology we have were, like the mobile threat detection and prevention, also use the model. So, it's being used in a different way. From a business perspective, we didn't think about doing licensing, and we could explore that, but we are more focused on doing embedding in endpoints.

Trip S. Chowdhry, *Analyst, Global Equities Research, LLC*

Very good. Thank you very much, John.

John Chen

Sure, Trip. Thank you.

Operator

Next question is from the line of Paul Steep of Scotia Capital. Your line is now open.

John Chen

Hi, Paul.

Paul Steep, *Analyst Scotia Capital, Inc*

Hi, John. Can you maybe – either this one maybe for both you and Steve, and I'll just make it one question. You can parse up as you like here. Can you give us some context around the cost base? Obviously, you disclosed last quarter that you had 3,497 employees globally. And then, earlier in this call, you talked about increasing the number of reps by 23% at the end of Q2. So, I'm just trying to square up how we'd want to think about your cost base maybe going forward and whether you've just incrementally shifted resources or is this like net new adds that we shall be thinking that are temporarily going to get added and then come to productivity, as you've pointed out earlier?

John Chen

Yeah. We have not done any major, or even minor, reductions in force. We have moved some resources around, more for functional investment reasons, not for reductions of people. So, it's probably best for you to think about it as incremental.

Paul Steep, *Analyst Scotia Capital, Inc*

That's helpful. Maybe just the last one as well, in terms of new Cyber Security products, obviously, you're talking about given the team time to ramp up, but maybe talk to us a little bit about what you're seeing from inbound client interest, because you've launched a significant number of products been on a bit of a roll here in terms of new product launches. That's it. Thanks.

John Chen

I'm assuming you're talking about the Cyber side.

Paul Steep, *Analyst Scotia Capital, Inc*

Yeah, sorry, Cyber.

John Chen

Okay. Right. Probably, most of the conversation centers around the Protect product. When I think about the larger opportunities that we have won, the key winning product is Protect. So, this is why you heard me say a number of times on this call today that we're going to try to double down on the Protect side because it's a differentiator for us.

And in addition to that, the AI/ML model that we have could be embedded and could embed it without having to be updated. It's been valid for a very long time. So, that's probably the largest opportunities when you think about large installation. And now, what we're trying to do is to position the XDR product. We talked about the new one called Gateway - that provides zero trust architecture. Enterprise, especially like government, are extremely interested in that.

Paul Steep, *Analyst Scotia Capital, Inc*

Thank you.

John Chen

Those two areas.

Paul Steep, *Analyst Scotia Capital, Inc*

Thank you.

John Chen

Sure. Thank you.

Operator

Thank you participants. I'll now turn the call back over to John Chen, Executive Chair and CEO of BlackBerry for closing remarks.

John Chen

Thank you, Jesse. Thanks everybody for joining us. I know it's late in the East Coast. Hopefully you all are doing well and thanks some of you who attended our Annual Shareholder Meeting yesterday, and I'm looking forward to speaking with you folks soon. Have a great evening.

Operator

Thank you speakers. That concludes today's conference call. Thank you all for joining. You may now disconnect.