BlackBerry Limited

Fourth Quarter and Fiscal Year 2021 Results Conference Call

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PRESENTATION

Operator

Good afternoon and welcome to the BlackBerry's Fourth Quarter and Fiscal Year 2021 Results Conference Call. My name is Sadae and I will be your conference moderator for today's call. During the presentation all participants will be in listen-only mode. We will be facilitating a brief question-and-answer session towards the end of the conference. Should you need assistance during the call, please signal a conference specialist by pressing Star Zero. As a reminder this conference is being recorded for replay purposes.

I would like to turn the call over to Tim Foote, BlackBerry Investor Relations. Please go ahead.

Tim Foote

Thank you, Sadae. Good afternoon and welcome to BlackBerry's fourth quarter fiscal 2021 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. A 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 turn the call over to John.

John Chen

Thanks Tim, good afternoon everybody and thank you for joining us today. I'll begin with three headlines for the quarter:

The first headline is Licensing. This quarter, we entered into an exclusive negotiation with a North American party for the sale of the portion of the company's patent portfolio primarily related to mobile devices, messaging, and wireless networking.

BlackBerry will retain rights to use these patents. Patents associated with the company's strategic software and services business including Spark, QNX, IVY, Secure Communications, and Critical Event Management will continue to be owned and managed by BlackBerry.

The company has not yet reached a definitive binding agreement and negotiations are ongoing.

The company limited its licensing activities in the quarter due to the negotiations and because of accounting rules, which Steve will explain later. This resulted in Licensing revenue being lower than expected.

The second headline is Software and Services. This quarter we saw a slight sequential revenue improvement from Spark and a continuing recovery for BTS. BTS had a good quarter despite vehicle production headwinds from the global chip shortage. Software and Services billings grew strongly and are now back to the level of a year ago.

The third headline is BlackBerry IVY. Discussions with automakers and tier 1's are progressing well, and I'll touch on some of the exciting developments later.

Now let me get into more details.

BlackBerry reported total company revenue of $215 million. Software and Services revenue was $165M. Licensing and other was $50 million. Gross margin was 73%. Earnings per share was positive $0.03. Cash generated from operations came in at $51 million. Total ending cash and investments, as of February 28, was $804 million.

I'll now turn to our business commentary starting with Software and Services. Our ongoing strategy is to safeguard the Internet of Things with intelligent security. We achieve this by combining our thirty-years plus of security expertise with newly acquired technologies such as Cylance AI and Machine Learning.

We currently serve the market in two different ways. The first is to provide cyber-security for enterprise, particularly large, highly regulated verticals such as government, financial services, and healthcare.

Here we protect endpoints, networks, and communications with our zero-trust architecture.

The second is to embed technology to provide safety and security to the endpoint. Here our focus is currently largely on automotive. Again, a very large fast-growing market. Starting from a QNX install base of over 175 million cars on the road today, QNX and IVY, in partnership with AWS, have significant growth opportunities. Overtime these two paths that I mentioned will intersect and provide tremendous opportunity for BlackBerry. Investment in smart mobility and smart city infrastructure will help drive this convergence. But obviously the market is still early.

We recognize the need to be louder when communicating our strategy and who BlackBerry is today. This month we launched a major new digital radio and print branding campaign across North America and the UK to get the message out powerfully into the marketplace.

From a financial reporting perspective starting this Q1, which is the quarter we're in, we intend to report Software and Services as two separate revenue lines: namely Cyber Security and BTS.

The Cyber Security line addresses and includes Cyber Security, Endpoint Management and Critical Event Management markets. Our main competitors including other leading next generation endpoint security providers as well as notable UEM vendors. We address these markets with our AI-driven Spark, a fully integrated UES and UEM platform, along with AtHoc and SecuSmart.

BTS addresses the embedded software and vehicle data analytics markets. Notable competitors include Auto Grade Linux, Android, and proprietary operating systems. Our QNX product offers the highest level in embedded functional safety and security, while BlackBerry IVY will provide an end-to-end solution while harnessing data in the car. We believe that this change will help investors gain greater insight into the performance and opportunities of these businesses going forward.

Moving on to Software and Services metrics. ARR was approximately $468 million, slightly down from last quarter. Primarily due, as expected, to the pandemic-related impact on BTS.

Dollar-based net retention rate improved sequentially from 90% last quarter to 91% this past quarter.

Net customer churn remained low at around 1%.

Now moving on to BTS. As a reminder QNX is by far the largest component of BTS. As we anticipated during last quarter's earnings call, we saw improvement in both QNX design win design phase revenue and production-based royalties. This improvement continued despite a challenge from the global chip shortage and its impact on the auto supply chain.

It's not fully clear what the impact will be on production volumes, nor how long it will last. However, we continue to expect improvement from BTS in the upcoming fiscal year. Our plan of returning to a pre-pandemic normal revenue run rate of around $50 million per quarter by mid-fiscal year assumes that the new challenges are overcome by that point.

Looking beyond the short-term headwinds though, Strategy Analytics a leading research firm estimates that there will be a large expansion in the number of embedded systems in the car by 2027. They estimate that this growth will be mainly driven by ADAS, which is advanced driver assist systems, as well as data gateways. These systems require the highest level of safety certification and are increasingly deployed on chips with higher compute power. Both factors play to QNX's strengths and recent wins, some of which I'll mention shortly, give real data points, and support this trend. This validates the strategy of focusing on safety critical applications, and points to an increasing ASP per car.

During the quarter QNX strengthened its leadership position in its safety-critical Software. We announced enhancement to our Hypervisor, which by the way is the only one in the market certified to the highest level of functional safety. We also announced a number of design wins including that Motional, a joint venture between Hyundai and Aptiv, will be using QNX Black Channel Communication technology in its next-generation driverless vehicles.

Also, Baidu announced that their machine maps, a critical component of autonomous driving, will also be built on QNX and designed into the New Energy Aion models from GAC, which happens to be a leading Chinese electrical vehicle automaker. These announcements demonstrate that QNX is at the heart of latest vehicle technology developments, positioning the business well for future revenue growth.

It was also confirmed at CES that QNX has been selected by Sony for the latest Sony New Vision-S car. Furthermore, Scania selected QNX as its primary operating system for its heavy-duty trucks.

Overall, in the quarter QNX has 25 design wins with 9 in auto and 16 in general embedded market or GEM. The auto wins were predominantly ADAS and digital instrument cluster designs. The GEM wins include a mail processing control system for USPS, United States Postal Service; a connected manufacturing plant system from GE and next-generation eye-surgery equipment from a leading medical device company.

We're delighted to report that we now have design wins with 23 of the world's top 25 electric vehicle OEMs, which together represent 68% of global EV production. This is an increase, by the way, from 19 of the top 25 last quarter, with recent wins including Toyota and Honda. In a recent report, Deloitte estimated the CAGR, the compounded annual growth rate, for global EV growth the sales will be around 29% over the next 10 years. And QNX is well-positioned to benefit from this growth.

Let me now provide you with an update on IVY. Since the announcement in December, the response from OEMs has been very positive. We have held many discussions and many workshops, with a number of leading automakers and are pleased with how these discussions have progressed so far.

Many use cases have already been discussed, showing the potential of this platform once creative app developers are able to build on it. Most of these use cases are being developed under NDA and can't be shared right now. However, one we can share is the Right to Repair initiative. Gartner, a leading analyst, has identified BlackBerry IVY as a potential solution to the problem of safely and securely sharing standardized vehicle data with repair shops, without compromising either vehicle safety or the OEM's IP.

To support the development of the app ecosystem, this quarter we made investments to grow the IVY R&D team. This includes starting an ecosystem development group led by a new executive joining us shortly from a major OEM.

We recently announced the creation of an IVY Innovation Fund. The fund would drive use case innovation and adoption of IVY by startups. We intend to start with a $50 million investment to fund. Portfolio companies, by the way, will also have access to up to $100,000 in AWS credit as well as insight and guidance through the AWS Activate Program, a program that has already helped develop hundreds of thousands of early-stage startups.

We're also soon to unveil an IVY Advisory Council, designed to shape and advise the IVY Development Community focused on defining vertical-specific use cases. Among the first names to have already signed up are leading insurance companies, technology companies, as well as Telcos. Their input will complement the auto industry expertise provided by the top OEMs and Tier 1's.

Following our IVY announcement, major players such as Ford and Google, as well as Bosch and Microsoft, have announced commitments to the vehicle data market. Because IVY is hardware, operating system, and cloud agnostic, we do not see these announcements as competition but rather opportunities for IVY to partner and add value.

The vehicle data analytics market is both large and growing. McKinsey, in their "Monetizing Car Data" report estimate that the TAM, the total addressable market, will be in the region of $450 billion to $750 billion per year by 2030. We recognize that this market is going to be competitive, but we feel very well positioned. While we're already working with OEMs, in October we expect to release the Early Access version of IVY. We also expect to start shipping the product in February of next year.

Now moving on to Spark. As a reminder, we launched our new Spark Suite in May and the Cyber Suite in October. Pipeline for our Spark Suite grew strongly sequentially. The typical sale cycle is around nine months, so we're expecting a good second half to fiscal 2022.

We continue to have success in upgrading our UEM install base to Spark, i.e. adding Unified Endpoint Security or UES. This year we will start focusing on new logos through the Cyber Suite.

Across Spark, we started to see strength in both renewals and upsells in our key verticals. Let me share some names with you, some wins. This included Q4 business with the IRS, the United States Department of Commerce, the Qatar Development Bank, the Scottish Government as well as the Scottish Police, the London Metropolitan Police Service and the US Marine Corps, as well as Bell Canada just to name a few.

On the service front, I must mention that none of our Guard MDR managed service customers were negatively impacted by the recent SolarWind's breach. While I am on the subject, the HAFNIUM's state-sponsored attack on Microsoft exchange servers identified early this month was an example of threat actors leveraging patch vulnerabilities. The Script Control of our EPP product, Protect, has demonstrated we can safeguard customers from this threat. Optics, our EDR product provides additional protection.

We're excited about two upcoming products that will launch as an important part of our extended detection and response, or XDR, strategy. The first is our cloud-based EDR product, Optics 3.0, that's due to be released this coming quarter and will expand data querying and provide richer context for alert triage and threat hunting.

The second is our BlackBerry Gateway product that will be the first to offer Zero Trust Network Access to both the SaaS environment as well as on-prem applications, while enabling Cylance AI for faster detection and response. We will provide more detail at our Virtual Analyst Day next month.

Finally, a brief word about Secusmart and AtHoc. We have been pleased with the progress made by Secusmart this fiscal year. Secusmart technology is now used by 18 governments worldwide, offering the highest level of security for voice and text communication.

AtHoc has a strong position in federal government around the world including protecting over 70% of US Federal government employees. We see a significant opportunity for AtHoc in the enterprise and following the quarter end, just most recently that is, we announced the new BlackBerry Alert product. Alert is built on our critical event management expertise in the public sector, but with additional features tailored to the needs of the enterprise, such as integration with Microsoft Teams and ServiceNow. While it's early in the sale's process, we have already recorded enterprise wins, including Fujitsu.

I'll now turn the call over to Steve to provide more details about our financial performance, Steve?

Steve Rai

Thank you, John, 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.

Please note that starting in the first quarter of our new fiscal year, we will no longer adjust GAAP revenue for deferred revenue acquired. This means that GAAP and non-GAAP revenue will be the same going forward and comparatives will be conformed accordingly.

We delivered fourth quarter non-GAAP total company revenue of $215 million and GAAP total company revenue of $210 million. Fourth quarter total company gross margin was 73%. Our non-GAAP gross margin includes software deferred revenue acquired but not recognized of $5 million and excludes stock compensation expense of $1 million.

Fourth quarter operating expenses were $140 million. Our non-GAAP operating expenses exclude $32 million in amortization of acquired intangibles, $22 million in impairment of long-term assets primarily due to rationalization of real estate due to the transition to remote working models, $16 million in stock compensation expense, $3 million for software deferred commissions expense acquired and a $258 million fair value adjustment on the convertible debentures, which is a non-cash accounting adjustment largely driven by market conditions. Needless to say, this is due to the exceptionally high volatility and trading volume in the company's shares during the fourth quarter.

Fourth quarter non-GAAP operating income was $18 million, and fourth quarter non-GAAP net income was $16 million. Non-GAAP earnings per share was $0.03 in the quarter. Our adjusted EBITDA was $35 million this quarter excluding the non-GAAP adjustments previously mentioned.

I will now provide a breakdown of our revenue in the quarter.

Software and Services revenue was $165 million. Software product revenue remained in the range of 80% to 85% of the total, with professional services comprising the balance.

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

As John mentioned earlier for the new fiscal year, we intend to report Software and Services revenue in two lines: Cyber Security and BTS. Licensing and Other revenue was $50 million in the fourth quarter. Further to John's comments regarding negotiations relating to a potential sale, licensing activities have been limited not only due to the ongoing negotiations, but also because revenue from additional transactions that could have been completed in the quarter would have been treated as contingent revenue and deferred to future periods.

Therefore, had negotiations not been in progress, we believe licensing revenue would have been higher.

Now moving to our balance sheet and cash flow performance. Total cash, cash equivalents and investments were $804 million at February 28, 2021, an increase of $47 million during the quarter. Our net cash position increased to $439 million at the end of the quarter.

Fourth quarter free cash flow was $48 million. Cash generated from operations was $51 million and capital expenditures were $3 million.

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

John Chen

Thank you, Steve. For this upcoming fiscal year, our primary focus is on Software and Services growth.

As mentioned earlier, we will not be making any non-GAAP adjustment to revenue starting this fiscal year. Therefore, any revenue outlook comments I will make today, and Steve will make today, will be on a GAAP basis.

Because of the ongoing negotiation regarding the patent portfolio that we discussed, we're unable to provide a full year licensing revenue outlook at this time but I will give you some color at the end.

So that we had some plans, but it is still moving, a lot of moving parts on that.

So first, we anticipate a double-digit billings growth for both Cyber Security and BTS for the fiscal year 2022, resulting in total Software and Services GAAP revenue in the range of $675 million to $715 million. This represents a growth rate of between 9% to 15% from fiscal year 2021.

Cyber Security, which will include UEM, UES, AtHoc and Secusmart is expected to have full year GAAP revenue in the range of $495 million to $515 million. BTS is expected to have full year GAAP revenue in the range of $180 million to $200 million.

For both Cyber Security and BTS we anticipate revenue in the second half of the fiscal year to be stronger than the first half.

Because of the ongoing negotiations regarding the patent portfolio that were discussed, there is uncertainty around the licensing revenue outlook. However, appreciating that it will be useful have an outlook for modeling purposes, the most conservative scenario in which we modeled that the sales does not happen or does not complete, full year Licensing revenue would be in the region of $100 million.

In this scenario, we assume that negotiations and regulatory review continue for the first half and therefore, we expect revenue to be limited in the range of $10 million to $15 million per quarter. However, we believe that the completion of the transaction will be beneficial to our shareholders.

We will of course update you on any of the major developments.

This has been an unusual and challenging year to navigate. Despite the challenges, we had a strong year executing our technology roadmap, bringing 59 new products to market. That is up from 30 last year. In particular, the Spark and Cyber Suite have made significant steps forward.

We also made significant progress with strategic partnerships, both from the technology as well as the go-to-market perspectives. Our IVY partnership with AWS has obviously been a particular stand out.

I would like to now open the call for Q&A. Operator, would you please help us?

Operator

And we will now begin the question-and-answer session. To ask a question, you may press Star One on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press Star One to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for a question. We request that you limit yourself to one question and one follow-up.

For our first question we have Mike Walkley from Canaccord. Mike, your line is open.

John Chen

Good afternoon Mike.

Michael Walkley, Canaccord

Good afternoon, hey John, congrats on all the announcements and busy year for you guys. I guess the first question for me is just trying to understand the licensing negotiations a little better. Should you complete the sale, is this the vast majority of your portfolio and you won't have any licensing revenue going forward? Is it really the whole portfolio or is it just a portion of it? I'm just trying to gauge that.

John Chen

Well, it's a major portion of our portfolio. As I said, it covers three major areas - our cellular, wireless communications and networking. So, things that are relevant but not useful to us today in our strategic software part of the business. We'd retain all the embedded, and all the Cylance, and all the encryption and security technology patents.

Michael Walkley, Canaccord

Okay, great, and then my follow-up question, just on the guidance, I think it will be great to break out to two divisions. On the 9% to 15% growth -- can you maybe help us think about the two areas which one you think will grow stronger, I'm assuming it's BTS given the recovery in auto but any color on how the two different divisions, Cyber Security and BTS, might grow?

John Chen

Yes, I think because its revenue. Actually, first of all, let me clarify one thing. For billings, we expect double-digit growth in both Spark and BTS. From a revenue standpoint, because it's subscription-based revenue, we expect single-digit percentage growth in Spark and we expect double-digit percentage growth in BTS, so you're right in expecting BTS to have a strong growth because of a recovery.

Michael Walkley, Canaccord

But the double-digit billings in both would be great, okay. Thank you.

John Chen

Sure, absolutely.

Operator

Our next question we have Daniel Chan from TD Securities. Daniel, your line is open.

John Chen

Hey Daniel.

Daniel Chan, TD Securities

Hi, John just to question about how you're hoping to structure a deal for the patent sale. Should we expect ongoing royalties to come from, maybe you get a portion of the licensing fees that the buyer will take, or is this more of a one-time deal?

John Chen

A majority of the deal will come in one-time, early but there is a tail that goes on. I can't give you the details of this but it's for multiple numbers of years.

Daniel Chan, TD Securities

Okay. Now, you mentioned in the past that you've had offers for the entire portfolio, so what's different now that's making you consider selling it?

John Chen

There are two reasons. Number one is I really think it's a wrong thing to sell the entire portfolio because we have an ongoing business in Cyber Security and an ongoing business in BTS, which of course includes IVY and QNX. I think selling those portfolios would be extremely unwise for the company and for the shareholders.

I think the team was able to get connected with parties that willing to address the portfolio part that is not being used by us today. So, it just worked out from a business-friendly point of view.

Daniel Chan, TD Securities

Okay and just one more if I may if this deal does go through any thoughts on how you will deploy that capital?

John Chen

We're going to invest in Cyber and we have an ambition. I know we have lost, like, a couple of years because of our integrations and we have our product all caught up. So, you'll see us being more aggressive. In fact, we ran an ad today - Intelligent Security Everywhere. I just saw it in the New York Times. We're just going to step up in both people and spending in resources to go after the market. It's a huge market as you know very well. It's a huge market and no clear winner at this point and the barriers to entry are not that high, so we should be able to capture some new business. So, we're going to invest in that and then of course we'll invest heavily in IVY – our In-Vehicle data platform. It's very important to every OEM whether they build it themselves, working with somebody else or working with somebody like us, it's all very important. So, our relationship with AWS in this case is a big plus. So those are the two businesses that we are going to invest in.

Daniel Chan, TD Securities

Great, thank you

John Chen

Absolutely.

Operator

For our next question we have Trip Chowdhry from Global Equities.

John Chen

Hi Trip.

Trip Chowdhry, Global Equities Research

Hello, congratulations.

Very challenging year, very good execution John. Two quick questions I have. If I reflect upon the popularity of Apple iOS, it also started with an Innovation Fund that Apple created, but the differences it was not just Apple, but they also got two or three venture capitalists along with it. We know it's just called App Economy, which is a multibillion-dollar market and Apple is a prime beneficiary.

When we look at IVY platform that you have, it is spectacular, like, you're moving really at the speed of light. In October the product will be launched, and I mean for the developer preview next year it will be in the market and you have the Innovation Fund exactly $50 million of seed money, like Apple put in. But I was just wondering, do you have or have you thought about bringing in venture capitalists and jumpstarting a sub-app economy, automobile applications economy or something along those lines. Have you thought about those?

And also do you think you could provide, which will be very, very solid differentiation for your company is, if you could not just provide the money like what Apple did but also provide intellectual property patent protection to each and every company that creates products or applications on your platform and take an equity stake in each one of those startups. That would make your company completely, it's a little speculative, but it could be a much better strategy than Apple had with its iOS platform. Any thoughts and then I have a follow-up question?

John Chen

Okay great Trip, thank you. So, we only initially put up $50 million for this fund, and the objective so that everybody is clear on the objective is to make sure that we build applications. We believe that although we could build a very solid in-vehicle data analytics platform, without good applications and use cases, it would not be sticky. It would not be adopted. I think there are a lot of companies that could build a data platform. Maybe ours is more secure X-Y-Z and so forth. And you know that having a partner like AWS helps, but at the same time, you won't get the stickiness. So, I didn't want to learn the experience, so I learned the lesson twice so this is important that early on I start up the enablement group that goes after applications. Then we build some ourselves, but the majority is going to have to be encouraged startups.

And even established companies that are interested in working with AWS cloud and working with BlackBerry QNX and all the other technology that we provide and build up applications on IVY. I also added that we're going to start an advisory Council, which are vertical people - vertical industry people as I said and they will then bring in some ideas that this is how I could see IVY helping out in my business case going forward.

To answer your questions, with the limited fund that we have to establish, initially $50 million, we will have to work with other VCs. I haven't gone through the steps of trying to pull them in to be a co-funder, but we will have to work through their pipeline and identify their target companies that could benefit from both what AWS offers, which includes $100,000 of free cloud usage, so that they could run their tests and development. AWS also has a lot of tools and a lot of know-how in Navigate, it's called Navigate to help them. We of course provide them the test bed and the technology support and help.

As far as IP is concerned, I don't think we're going to touch other people's IP unless we see ourselves owning part of it. We're going to let that company own that IP in the company that we invest in. So, I don't know whether I could help to protect them but they obviously we could help them accelerate their IP filings. We have a lot of people that know how to do this very well.

Trip Chowdhry, Global Equities Research

Very good John. As you know today intellectual property and patents are the new gold

John Chen

Yeah.

Trip Chowdhry, Global Equities Research

Second question I had was regarding the intellectual property portfolio you have. The last time I counted it was more than 30,000 patents.

John Chen

38,000 to be exact.

Trip Chowdhry, Global Equities Research

Oh wow, that's amazing. Now, I know it's very difficult to put the details of your ongoing negotiations, but ballpark figures, are we talking about the 20,000 patents which will be sold or 15,000 or 30,000 just a ballpark estimate. Is it half of--

John Chen

I best not do this - to provide you the answer. I'm sorry about that but it's because it's part of a negotiation and so the category I put out was probably the best you could get at least for now. The categories are obviously, cellular, networking and messaging. And then encryption, security, IVY, QNX are all separate from this, and are not included.

Trip Chowdhry, Global Equities Research

Excellent. I think I had my questions answered. All the best and I'm looking for an excellent 2022 fiscal year

John Chen

Thank you, Trip.

Operator

For our next question we have Paul Treiber from RBC Capital Markets. Paul, your line is open.

Paul Treiber, RBC Capital Markets

Thanks so much and good afternoon

John Chen

Good afternoon

Paul Treiber, RBC Capital Markets

Just on the patent sales, the $100 million in patent license revenue that you expect for this year. So, if the sales go through, does the $100 million go away. So eventually, you know, all the patent licensing revenue goes with the sale and conversely, if hypothetically speaking if the sales doesn't happen at all, should we think of patent licensing revenue being in that, continue that, I think, $250 million in the past is what you said on an annual basis.

John Chen

Yeah. Paul, that's a good question. So, this is an unusual year. So, let's talk about if the patent license sale goes through, we will report a one-time gain of a reasonably big number followed by a tail of up to seven years. So, it will not go away to zero. There is some recurring stuff but most of that would not be with us, but it will not be zero, but it will be quite small if the patent sale goes through, with one big year in this fiscal year 2022.

If the patent sale does not go through, then the first couple of quarters will be low because as the patent sale is being negotiated right now, I actually am unable to do more other negotiation going on, so the pipeline basically is frozen, but it won't go away. So, if the patent sale does not go through, I may have to suffer a little bit for the first couple or two or three quarters and then we will then resume the target $250 million a year of patent licensing. Does that make - did I answer your question?

Paul Treiber, RBC Capital Markets

Yeah, that's very helpful. And I think the cash flow will be similarly aligned with those revenue numbers?

John Chen

Unfortunately, yes. The cash flow will be similarly aligned.

Paul Treiber, RBC Capital Markets

Okay, that's very helpful. And then the second one is, big picture with the-- with the stock having gone through the rally that has gone through the -- in finance theory would say, in cost of capital with cost of equity is lower and so the question is, seeing the sort of new found enthusiasm in lower cost of capital, have you contemplated issuing equity at these levels seeing how it could enhance the strategy having more equity or more cash?

John Chen

Yeah, that's a good question. It's been a constant conversation with various bankers from our strategic planning group and our M&A group. I, today, I'm not working on any specific thing, but we're open. I mean there is no principle that we won't do it. The only thing that we won't do is we won't intentionally dilute our shareholders just to keep some money in the bank and on the balance sheet. I would like to make sure that we have at least some idea of usage. So, when people come to me and say, by the way you could raise a convert at 0% and a premium of X% up, 40%, 50% up, let's say. I see that's very attractive, but then I keep asking my people, so, okay, once you get the money, what are you going to do with it? Because you have a dilution hanging over your head and I don't know whether I answered your question. I guess I just kind of explained how I think about it. I am not against it. I know that there are very attractive terms out there, especially at this level of equity, but I want to make sure that we have a targeted view that could help the business first.

Paul Treiber, RBC Capital Markets

And may be another way to ask the same question is -- for your strategic plan, you don't require a significant acquisition or deployment of capital to execute on the current plan that you have?

John Chen

No, we do not. The plan I give you 9% to 15% growth does not assume any acquisitions.

Paul Treiber, RBC Capital Markets

Okay, thank you.

John Chen

Sure.

Operator

For the next question, we have Paul Steep from Scotia Capital Market. Paul, your line is open.

John Chen

Hi, there

Paul Steep, Scotia Capital Market

Hi John. John, just recognizing it's a challenging situation with licensing, but I guess with the proceeds, if we assume this proceeds, how would we think about deploying that capital? I know you answered it earlier, but I guess the point being, is it envisioned that you would look to do like some type of a strategic or transformative M&A to materially accelerate growth in the business, I think it becomes the question. I do have a quick follow-up, if it's somewhat helpful.

John Chen

Yeah, that really is. Paul, it's really dependent on the target out there. The answer to your question is, I will always love to do that. I really do. But there is also a question of affordability, especially in the auto-tech space, I think our position with QNX and the stuff we're doing on IVY, with Cylance's technology that could go into a car, I think we're well positioned in terms of what we could put in. There might be some acquisition we need to make to further our growth rate of revenue. That would be an interesting target but today, there is no specific target that I have in mind. My people always have a list of names that they go look at, but I don't have any specific thing, but the answer to your question is that this will be a priority usage for us.

Paul Steep, Scotia Capital Market

Okay, then may be related. Let's set aside whatever's is going to occur with the patent sale will transpire or not, as the case might be. Just dialing back to your comments earlier in the call, can you talk to us about how we should think about the level of spend, I know you're not guiding EBITDA or free cash flow, I respect why, but maybe just help us put it in context. I think you talked about accelerating increased growth, but then when I look at the spend and I know maybe Q4 is in the best spot to look, sales and marketing is up 10 year-on-year 10%. I know it's got stock-based comp in there, but R&D actually offset it, so should we think net that you're actually dipping in and we might go negative a little bit or no?

John Chen

No, that's not our intent. We have a reasonably large number of hires mostly in sales and field marketing in our plan that I just provided you. You're right I am unable to give EPS guidance and cash flow guidance only because the licensing part is shifting so much, so we didn't want to go there at this point. So, the answer to your question, it was not intended to reduce however we're taking some reductions in G&A. We're also going to take a reduction in real estate. You noticed that Steve had mentioned, we have an impairment charge of $22 million and a lot of it relates to real estate because we decided to cut down our real estate footprint by maybe up to 25%. In this way we will have, after the pandemic, we will have roughly about 20% to 25% of our team members that will be working remotely on a rather permanent basis. We will provide some hoteling offices and I think you see that in many companies, especially in software tech companies. We decided we don't want to go all 100% because we want to maintain a level of creativity and personal involvement. So, we're going to save some money from infrastructure, we're going to save some money from IT and some other consolidation work over there and we will then fund engineering and mostly fund go-to-market.

Paul Steep, Scotia Capital Market

Great, I'll just ask one last quick clarifying one. Can you just comment – respecting that it's difficult but like obviously we had the situation in Japan relating to chips in automotive, what sort of the broader mood, John in terms of the base, obviously if these decisions don't get made in the vacuum or overnight but is there overall maybe a bit of a pause going on or are people still moving forward with projects and I'll pass the line.

John Chen

So far with the 25 design wins we had in the quarter, with some really big name wins like Toyota, Honda, EV, Scania trucks in Sweden and other wins that we have. So far, the auto space is still very vibrant from a design win standpoint. Then eventually it will hit us -- I am following what GM and Ford had said publicly. GM has stated that in the second half of this year the chip shortage issues will be overcome, and they assume a resumption of the three shut down factories right now. So that's why we said when we do our planning today, we assume that we will continue to win design wins in QNX, that we will then have developer license - it's revenue and hoping we'll do some more professional services. And then the production obviously kicks in the future. It does affect us immediately a little bit but since we're in the recovery mode, I think it's being absorbed somewhat. So, our guidance of 180 million to 200 million for the year assumes that this shortage and plant shutdown problem ends mid-year. Now, that's just a stake in the ground and we have to model it somehow, somewhere. If that prolongs, then that will prolong our recovery, but I'm hoping to minimize as best as we can. Not every plant is shut down by the way, obviously you know that.

Paul Steep, Scotia Capital Market

Yeah, that helps. Thanks guys, all the best.

John Chen

Sure, absolutely

Operator

Next, we have Steven Li from Raymond James. Steven, your line is open.

Steven Li, Raymond James

Hey John, how profitable are these licensing revenues, is the gross margin, for example, higher than your corporate average?

John Chen

Yes, which is painful for us in the first couple of quarters because we expect one way or the other, it's going to be a low revenue -- low level, but the answer is, yes, it's higher than the corporate number by a significant percentage.

Steven Li, Raymond James

Okay, so John if the patent sale goes through, could your EBITDA turn negative for example?

John Chen

Yeah, it could and I'm hoping to -- EBITDA go negative? I didn't calculate EBITDA to go negative, but EPS will go negative. But I am hoping that we will start registering some growth in Software and Services to offset it.

Steven Li, Raymond James

All right, got it, thanks

John Chen

Absolutely.

Operator

We don't have any further questions at this time. I would like to turn the call back over to John Chen, Executive Chair and CEO of BlackBerry, for closing remarks.

John Chen

Thank you very much. I don't have any further remarks and thank you all for your interest in the company. We will have a very interesting year ahead of us here. We believe our Software Services, especially when we separate out the two lines, we already know that Spark will do some growth in billings, revenue growth will come mostly from BTS. For Licensing it could go either way and we will keep you posted. I'm sorry it's late in the evening in the East Coast. Thank you all very much for attending today's call and have a great evening.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.