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BlackBerry Limited

First Quarter Fiscal Year 2021 Results Conference Call

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Mike Walkley, *Canaccord Genuity*

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PRESENTATION

Operator

Good afternoon, and welcome to the BlackBerry First Quarter Fiscal Year 2021 Results Conference Call.

My name is Josh and I will be your conference moderator for today's call. During the presentation, all participants will be in a 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 now like to turn today's call over to Christopher Lee, Vice President of Finance. Please go ahead.

Christopher Lee

Thank you, Josh. Welcome to the BlackBerry Fiscal 2021 First Quarter Results 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 Note regarding forward-looking statements, John will provide a business update and Steve will then 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 U.S. 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, and the COVID-19 pandemic, which is negatively impacting public health, financial markets and global economic activity. 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 website.

I will now turn the call over to John.

John Chen

Thank you, Chris. Good afternoon, everybody. I hope that all of you and your families and your loved ones are staying safe and healthy during these very unprecedented times.

This fiscal quarter of ours, which happened during March, April and May, overlapped directly with COVID-19 business constraints, resulting in both headwinds and tailwinds. The entire Company moved to working from home in early March, and operations have been reasonably smooth.

I will start with then financial highlights in the quarter and then move on to business commentary. I will reference non-GAAP numbers in my summary.

In our first fiscal quarter, we reported total company revenue of $214 million. All the businesses performed in line or better than our expectations, except for QNX, which was negatively affected by global auto production shutdowns. However, our enterprise products and services that feature security and productivity benefited from the increase in remote working, business continuity and crisis management use cases with our customers.

Total company billings were also down year-over-year due to the pandemic, but the billings decline rate was less than the revenue decline rate. This is, of course, a big positive for future revenue.

Gross margin was 71%.

We achieved a profit of $0.02 per share. BlackBerry continues to balance profitability and investment for the long term.

Cash used in operations was $31 million, versus $64 million in cash used in operations last year. As you are aware, our first fiscal quarter typically has a high use of cash due to the commissions and the annual bonuses payment. This year, we spread the annual bonus payment over the first two quarters. Total ending cash and investments balance at May 31 was $955 million.

Before I move on to business commentary, please be reminded that we have fully integrated Cylance into BlackBerry on March 1, the start of our current fiscal year. As a result, we are now operating in two reporting groups, the Software and Services group and the Licensing and Other group.

Let me start with the Licensing and Other group. Revenue was $58 million in the quarter, in line with our expectations. The vast majority of the revenue is from IP licensing. We are off to a solid start for the fiscal year.

Moving on to the Software and Services group, revenue came in at $156 million. ARR was approximately $500 million and the dollar-based net retention rate was 93%. Going forward, we intend to provide these metrics on a quarterly basis. Net customer churn was close to zero percent and there has been no change to this net churn rate for the last several quarters.

Let me click down on key product components of the group.

Let's start with QNX. Development seat, professional services and royalty revenues were all negatively impacted, primarily due to the auto production shutdowns and the project delays. That said, we're starting to see signs of recovery in the auto sector, evidenced by the reopening of the production facilities. Engagement with our auto and general embedded customers has increased on projects that we were working on prior to the shutdown, as well as new opportunities that came up. We anticipate a slow and gradual recovery for QNX throughout the year. It will take time for the production to ramp back to full capacity.

In the quarter, QNX was chosen for ten design wins, six of which were in the general embedded market for industrial and medical applications. The remaining four were in auto, including an ADAS, advanced driver assisted software, design win with Hyundai Autron and an acoustics design win with Volvo. The other two auto design awards were for the secure gateway and an infotainment system.

This continued design win momentum supports our leadership position. Our latest automotive install base number is over 175 million, an increase from 150 million last year. This metric, which we generally update once a year, has been validated by Strategy Analytics, an independent third party.

In an attempt to provide more information on the QNX business, we have decided to share our royalty revenue backlog on an annual basis. The backlog is based on the customers' estimates of lifetime volume of the design when it is awarded. As of today, the estimated royalty revenue backlog is at $450 million.

QNX is a recognized name associated with safety and trust, and we continue to expect that QNX will be selected for many design wins in the future. These design wins will add on incremental revenue from development seats, professional services, as well as royalties.

Our four-year historical compound annual growth rate, or CAGR, is 13%, which is well ahead of the 5% market CAGR over the same period. Over the next five years, we plan to achieve a CAGR above the market growth rate of 11% which is cited by McKinsey for automotive operating systems and middleware over the next decade. Our plan to accelerate the QNX growth rate includes increased investment to gain market share in both the auto and general embedded markets, and to grow our professional services business. We recently launched our first service packages that offer cybersecurity assessment and testing.

Moving on to AtHoc, our crisis communication lifecycle solution. AtHoc was a performance leader this quarter. AtHoc is very well suited for business continuity preparedness and execution in the current environment. We had a number of new customer wins in competitive situations, including wins with first responder agencies and energy companies. We also had a strong quarter of expansions and renewals. After the quarter, we announced several notable new logos, including the United States Department of Transportation and the U.S. Federal Trade Commission. We also expanded our business with the U.S. Department of Health and Human Services.

Moving on to Cylance and UEM, which going forward will be referred to as the Spark platform. BlackBerry Cylance was slightly ahead of consensus expectations for the quarter. We added 279 new customers and new active subscription customer growth was about 15%. This is measured on a year-over-year basis. Notable new customers include General Motors, Becton Dickinson, Phillips Healthcare, SKF, which is one of Sweden's largest manufacturers, the New Zealand Defence Force and the United States Census Bureau, just to name a few.

We have seen revenue steadily increase for the bundle that includes OPTICS, which is our EDR product, and PROTECT, which happens to be our EPP product. Interest in our managed services offering, GUARD, continues to be strong since its launch last July, resulting in sequential revenue growth of over 85%, which, I have to caution, is off of a small base.

BlackBerry Cylance performed extraordinarily well in the recent MITRE evaluation, which is regarded by the industry as the most objective and transparent standard currently in the market. We clearly demonstrated that our AI-led solution and managed services protect customers from global threat actors. We were especially pleased by the performance of OPTICS, which surpassed many EDR players who happen to be ranked above us in industry analyst reports.

Our UEM business also executed well, benefitting from the increased need to deploy more endpoints, especially mobile. Demand was strong from our regulated industry customers. Let me name you some notable wins, notable customers. They include American Express, CIBC, The European Bank for Reconstruction and Development, Qatar National Bank, The National Commercial Bank, Absa Bank, The Development Bank of Singapore, Mitsubishi UFJ Financial Group, and the Republic of India. With the Republic of India win, we now have 18 of the G20 governments as customers. These wins, I hope you agree, will solidify our strength in the financial services and government verticals.

Let me wrap up with the Spark Suites. Enterprises today face an increasingly chaotic environment where cyberthreats are ever more sophisticated and pervasive. Attackers primarily targeted endpoints in 70% of successful breaches, especially in the form of mobile. The 5G roll-out will lead us to a significant increase in attacks on mobile endpoints. At the same time, enterprise endpoints and the amount of data shared at the edge are also growing exponentially. Together, cybersecurity threats and endpoint chaos are putting organizations at risk while cutting into the employee productivity and increasing IT costs.

A recent assessment by Frost & Sullivan defines the cyberthreats to the entire IoT landscape. This report recognizes how BlackBerry's solutions address over 96% of the collective threats. A copy of this assessment is available on our website.

A big part of BlackBerry's value proposition is our ability to address these threats with our Spark Suites, our platform that combines endpoint security, as well as endpoint management. Though the Spark Suites were only launched on May 19, which was roughly four/five weeks ago, they have been extremely well received by both customers and partners. Since the launch, over 15 customers have purchased one of our Spark Suites, including Deutsche Boerse AG, one of the largest providers of financial market transaction infrastructure worldwide.

After the quarter, we announced a partnership with Bell Canada. BlackBerry becomes Bell Canada's preferred partner for Mobile Threat Detection—and Defense, sorry. MTD is sometimes used as Mobile Threat Defense. Bell will offer our MTD product to their enterprise customers. Our AI-driven MTD product is one of the core pillars in our Spark Suites.

We are adding more features. We are on schedule to ship Data Loss Protection and Secure Gateway later this year. We anticipate these additional pillars will increase revenue. We also believe this will increase our addressable market because of the way we architected our UES security layer to interoperate with competitors' UEM solutions.

Let me wrap up this section on the personnel front. We recently announced that Tom Eacobacci has been appointed as BlackBerry's newest President. Tom's role will be to lead all business activities for the Software and Services group. Tom is an accomplished software sales executive from Citrix, with over 20 years of enterprise customer-facing experience. Tom has led all facets of a global sales organization.

In addition to Tom, we also have recently recruited two other senior level industry leaders focused on go-to-market. The first is our new head of Software and Services business development. The second is our head of corporate marketing. Both started on June 15, already. Their hiring, I hope, is a good indicator of industry talent interested in joining BlackBerry and demonstrates our conviction to build a stronger go-to-market engine.

With that said, let me turn the call over to Steve to provide more details about our financial performance.

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 and reconciliations.

We delivered first quarter non-GAAP total company revenue of $214 million and GAAP total company revenue of $206 million. I will break down revenue shortly.

First quarter total company gross margin was 71%, versus 75% reported in the first quarter of Fiscal 2020. The change is due primarily to a decline in QNX royalty revenue.

Our non-GAAP gross margin includes software deferred revenue acquired but not recognized of $8 million and excludes stock compensation expense of $2 million.

First quarter operating expenses of $150 million were down sequentially by $22 million. We continued our investment in product development and go-to-market, while maintaining strong control over spending, given the current macro landscape, and of course the global shutdown did help to reduce spending.

Our non-GAAP operating expenses exclude a $594 million non-cash accounting goodwill impairment charge. This represents an impact of $1.06 to GAAP earnings per share. This assessment was required in accordance with accounting rules and was driven by the broad-based economic decline and corresponding impact on our market capitalization. Further details will be available in our Form 10-Q.

In addition, our non-GAAP operating expenses exclude $33 million in amortization of acquired intangibles, $12 million in stock compensation expense, $3 million for software deferred commissions expense acquired, $1 million in restructuring costs, and a charge of $1 million related to the fair value adjustment on the convertible debenture.

First quarter non-GAAP operating income was $3 million, and first quarter non-GAAP net income was $12 million. Non-GAAP earnings per share was $0.02 in the quarter.

Our Adjusted EBITDA was $20 million this quarter, excluding the non-GAAP adjustments previously mentioned. This equates to an Adjusted EBITDA margin of 9%.

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

In our Software and Services group, our product revenue was between 80% and 85% of the group's revenue mix, with professional services comprising the rest of the mix. Recurring software product revenue was above 90% in the quarter.

In our Licensing and Other group, as John noted earlier, the vast majority of revenue is from IP licensing, and Service Access Fees were about $2 million. We anticipate about this amount for each remaining quarter in Fiscal 2021.

Now, moving to our balance sheet and cash flow performance, total cash, cash equivalents and investments were $955 million at May 31, 2020, which decreased by $35 million from February 29, 2020. Our net cash position was $350 million at the end of the quarter.

First quarter free cash flow, before considering the impact of acquisition and integration expenses, restructuring costs and legal proceedings, was negative $30 million, and cash used in operations was $31 million, with capital expenditures at $1 million.

That concludes my prepared remarks. I'll now turn the call back to John for additional comments.

John Chen

Thank you, Steve. BlackBerry remains strongly focused on achieving profitable growth while investing for the long term.

Now, given continued uncertainty across the global economy due the pandemic, it is still prudent for us not to provide a specific Fiscal 2021 outlook. However, that said, I'd like to provide some directional comments on the rest of BlackBerry's fiscal year.

We are expecting a good second fiscal quarter because, one, we anticipate modest sequential growth for our Software and Services group, and, two, we expect strong sequential growth in our Licensing group.

We anticipate Licensing revenue to be around $250 million for the full fiscal year—not Q2, full fiscal year. In line with our normal intra-year seasonality, we anticipate, also, a strong fiscal fourth quarter.

I also want to reiterate that BlackBerry continues to be financially healthy. Even during these uncertain times, we demonstrated fiscal discipline, generated profitability and maintained liquidity. We recently ran another set of financial stress tests, assuming up to a 30% revenue decline and no new financing. The results showed that we continue to be solvent and liquid for the next several years.

We anticipate ending the year in a positive free cash flow position and, therefore, adding to our cash balance, and we plan to fully redeem the debentures this coming November when they mature. This will save about $23 million a year in interest payments going forward.

We believe BlackBerry will capitalize on the secular trends on securing and connecting endpoints. Our business strategy and technology are definitely in place, we're competing in the right markets, and the most important task right now is profitable revenue growth and market share expansion, and we are very focused on that.

Before I open up for Q&A, I would like to make a statement about yesterday's Annual Shareholder Meeting to clear up any confusion. The facts are that we did hold a Q&A session. Unfortunately, only one registered shareholder submitted a question. We answered the question. There may have been others who wished to ask questions, but could not because they were actually guests, so there was no glitch on the technology. Our proxy materials are clear that guests would not be able to ask questions.

I will now open the call for Q&A. Josh?

Operator

Now, we will 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 questions. We request that you limit yourself to one question and one follow-up.

Your first question comes from Gus Papageorgiou with PI Financial. Please go ahead.

Gus Papageorgiou

Yes, thanks. Thanks for taking my question—just a couple questions. First, on QNX, you issued a press release, I believe it was yesterday, that showed your increase in install base, increased by about 25 million automobiles, which is about 25% of the market year-over-year. I'm wondering if you could comment on the market share within automobiles year-over-year. So, if it's roughly 25% now, what was a year ago?

Then, just secondly, thanks for giving some sort of sense of what the rest of the year is going to pan out like. Just on the Enterprise Software side, obviously, you said you saw a strong demand in this quarter. What do you expect demand will be like for the rest of the year in that segment?

John Chen

Okay, Gus, thank you. So, on 175 million cars—actually, I know you have done a ton of research on the auto space, as we've spoke many times in the past—there are roughly—in big numbers, there are roughly a billion cars in the world running around every day, and I would dare say maybe 60% plus of the cars that are connected—connected cars. Obviously, very little in the autonomous car, but in the connected cars, I would dare to—I mean, I would guess it's going to be about 60%, 70%. So, you look at that number, and you look at the fact that we have 175 million cars that have our software on the road today, I mean, you could calculate the market share. We definitely are—if you take about 600, you divide by that, I'm guessing we're roughly about 30% market share. That will be my best guess. It's non-scientific. I just walked you through how I look at the numbers. I'm sure somebody else might point out, maybe find fault in my thinking, but that's that.

Regarding the year, I think when I look at—maybe I'll start with the industry consensus, maybe I'll start with that. The consensus is about a mid-900 million for the year, that looks reasonable, definitely in the ballpark. We expect small sequential growth in the Software and Services business. We expect our IP business, our Licensing piece of business to come in about $250 million for the year. So, you could kind of triangulate that back to the consensus. I think we're pretty much in the same ballpark as you guys are.

Gus Papageorgiou

Sorry, on kind of profitability.

John Chen

Oh, on profitability, I think it's a good shot of us being profitable. We demonstrated—

Gus Papageorgiou

For the full year?

John Chen

For the full year, yes.

Gus Papageorgiou

Great, thank you very much.

John Chen

I already said, Gus, that we will—we're looking like we're going to be cash flow positive for the year, free cash flow positive for the year, so I believe we'll be able to be profitable for the year, also, on a non-GAAP basis.

Gus Papageorgiou

Perfect. Thank you very much.

John Chen

Thank you, Gus.

Operator

Your next question comes from Daniel Chan with TD Securities. Please go ahead.

Daniel Chan

Oh, hi. Thanks for taking my questions. The QNX royalty backlog, did I hear correctly it was $450 million?

John Chen

Yes, $450 million.

Daniel Chan

So, how did you guys calculate that number? I actually thought the number would be higher considering you do annual QNX revenue. I know there's a whole bunch of other stuff in there, but annual QNX revenue, that's about what, like around $200 million or so? So, how did you calculate that backlog considering that a lot of the programs that you're involved in have a long lifecycle?

John Chen

We generate—I'll give you some historical number. Not this year, obviously, but a year ago we generated, roughly, about $150 million in royalty in a year. Some of those will become revenue in a year. We also generated somewhere between, in the ballpark, $70 million to $100 million from developer seats and professional services. If you add that together, I think you'll get close to the number that you just cited.

Daniel Chan

Okay.

John Chen

Is that helpful?

Daniel Chan

Yes, that's helpful. I just assumed that the lifecycle of some of these automotive programs were really long, so when you win one of these design wins, you've got a very long tail of continued royalty revenues. I thought it would probably add up to—I expected a much larger number than that, but okay.

John Chen

Yes, I would say that we're probably on the conservative side ourselves. These are the numbers that were given to us by the customers at the time of the win. They usually adjust it. I mean, it could go down or it could go up. There'll also be derivative wins. Like, for example, when we win a certain model with an OEM, they most likely will give us different models of the same thing, and we have seen that rather repeatedly. I think one thing you could take away is that we are very comfortable with our competitiveness and our relationship with our customers on a global basis. As the business starts returning and the design wins start being awarded, we will get a good share of it.

Daniel Chan

Okay. Yes, that's helpful, thanks. Then, on the delayed programs that started to kick in last quarter, it sounds like things are starting to move again. Any word on some of these delayed programs picking back up?

John Chen

Yes, our team have told me, told us, that the customers are back talking about the design and talking about new projects and talking about the schedules of the new projects, their schedules. That's the number one most important thing, it's that they have to have a schedule first. That will enhance our ability to win. So, that's where we are. It's a good start.

Daniel Chan

Okay, thank you.

John Chen

Sure.

Operator

Your next question comes from Trip Chowdhry with Global Equities Research. Please go ahead.

John Chen

Hi, Trip.

Trip Chowdhry

Thank you. Hello, hello. A lot better numbers than I was expecting. Very good execution in a very difficult environment. I have a couple of questions. Would you be comfortable saying that the first quarter was pretty much the bottom and you are seeing signs of economy opening up and recovery happening?

John Chen

Well, earlier, when I told Gus that I'm comfortable we're in the right ballpark with the consensus, it's to assume a gradual reopening of the economy. Like, earlier we talked about QNX design wins. Despite a very difficult quarter, I was actually positively surprised that we won 10 designs in the quarter. I mean, it doesn't translate to a lot of immediate revenue, but I thought that was such a—better than I thought, because nobody's going to work. So, I have a certain—or we have a certain expectation that things are getting better, although we're being very cautious. We believe we are going to get better slowly. This is where I said, okay, we're going to see incremental—small incremental improvements in Software and Services on the Enterprise side; a slow incremental improvement in QNX, maybe a same but difficult quarter in Q2, but we expect the second half to be better; and then we feel comfortable with the pipeline of our IP. This is how we all threw everything together, and our spending and everything else. So, that leads to our belief that we'll be profitable over the year, we have positive cash flow for the year. Trip, that's the environment that I'm expecting, and that's tied to the number.

Trip Chowdhry

Beautiful, beautiful. John, you've always been very innovative and always ahead of the curve. We all are working from home, we are doing remote working, but there's a challenge when it comes to selling, in terms of more selling. So, I was wondering—like, knowing you from Sybase, you turned the industry upside-down. When we think about remote selling, what new things are you putting in place and how are you differentiating and making it feasible, because your numbers definitely tell that your sales execution is a lot better than I was expecting. So, what processes you may have put in place to have success and win rates better in an environment where remote selling is going to be somewhat of a knock?

John Chen

Hey, thank you. We're not as good as you said we are, but—because we benefit from the trend that I think most of all my peers in the industry see, and because we provide security software, cybersecurity software, because we provide crisis management software, and mobile, that helps facilitate the remote working from home. What we have seen in the first three months, or the three months that were the most severely impacted, what we have seen is that new customers are extremely hard to come by. Existing customers, upselling to them, they have a built-in requirement to need more software, more seats, more licenses. In some cases AtHoc, where people are on the fence and say, "Well, I don't really know if I need it," they have decided they need it, unfortunately, because of the crisis. It's kind of like the only silver lining to this pandemic situation. I traded notes with other CEOs of other tech companies and pretty much everybody is saying the same thing. Upselling, especially if you have the right type of software, it's a good expansion. It's okay to sell remotely. This is where the relationships are very important. Fortunately, BlackBerry has a lot of good relationships, especially in the regulated industries, like the banks and the medical field and the government. That helped us to put some kind of anchor into the business. The new projects, the new customer base, I would have to say is much more difficult to come by.

Trip Chowdhry

Thank you, John. All the best.

John Chen

Thank you, Trip.

Operator

Your next question comes from Mike Walkley with Canaccord Genuity. Please go ahead.

John Chen

Hey, Mike.

Mike Walkley

Hey, John. I had a question for you.

John Chen

Sure.

Mike Walkley

You talked about AtHoc on the call as an area of strength. With the change in work and government safety environments, how are you leveraging AtHoc's strong position with federal government into opportunities to compete more maybe at the state, local, and even enterprise level, compete more maybe with Everbridge's offerings?

John Chen

That's a very good question. The federal space, the G20, the Five Eyes countries, United States, Canada, we do have good customer recognition, and we have a big install base, especially in the United States, for example, multimillion licenses that we have, so those are a good thing. We have, traditionally, not been strong in state and local, and that is about to change. We're putting a team of people that's just responding to RFPs and RFIs - a dedicated team. We also recognize the fact that we need a more SMB-type salesforce, rather than an enterprise salesforce, like selling to the government agencies. So, we're adding resources in both areas that I talked about. So, we go after the RFPs for the states and local, then education market, and the other SMB market we go after with more of an SMB sales team. I think it will work well.

The good news is we have also upgraded our product into having a complete lifecycle product, and we also have delivered the managed services product, and so that fits to the smaller enterprise, because we never had the managed services product. That has just been recently announced, literally days ago. So, we're equipped now both in the managed services, with the way we laid out our sales approach, and it's a great market, I have to say. At a time like this, it's a really great market.

Mike Walkley

Great, thanks, and just following up on that, are there any metrics you can share on the business, maybe the size of it on an annual basis, or growth metrics, and then, also, how do you view the business, are you adding sales people to attack the EU mandate and the opportunities for mass notification over there in the upcoming years?

John Chen

I don't have the answer to your question right now, but let me do this, let me see what metrics I could deliver and provide, because we're early—we're actually early to a non-federal play. The federal play has very easy metrics. You know all our wins, you know all our logos, the renewals are strong, we have seats. Like, in the United States, our licenses are over 2 million seats, but they're very concentrated in the federal government and the armed forces, and so forth. So, we are starting to expand. It's still a little early for me to give you these metrics, but I will work on it and look into it, and I'd like to know, too.

Mike Walkley

Okay, thanks. Last question for me. Just switching gears, any update on RADAR and the IoT business, and could that be mapped into Software and Services going forward also? Thank you.

John Chen

Yes, RADAR is actually doing reasonably well. Unfortunately, the numbers are not high. They did get affected somewhat by the pandemic, because we're unable to visit customers, because RADAR is really very—the RADAR team is very focused on winning new customers, because we win new customers, we get recurring revenue for RADAR, and so that's the focus. But, it has done well. I mean, it was nothing negative. We had some wins, we increased some usage, but nothing to—at this point, nothing moved the needle on that.

On the IoT, they are all now merged under Software and Services, so I don't really look at it that way, or separate it out at all.

Mike Walkley

Great, thank you very much. Best wishes for the year.

John Chen

Sure, thank you.

Operator

Your next question comes from Daniel Bartus with Bank of America. Please go ahead.

John Chen

Hello there.

Daniel Bartus

Great. Hi, John. Thanks for taking my questions. First, I just wanted to clarify, what was the ARR number that you said in the beginning?

John Chen

About $500 million.

Daniel Bartus

Okay, got you. Is that up year-over-year?

John Chen

Oh, this is the first time we actually disclosed it, so I don't know whether it's up year-over-year at all.

Daniel Bartus

Okay, okay, got you. Then, just what was the Cylance consensus number that you referenced, and I'm just curious if Cylance grew year-over-year?

John Chen

Yes, year-over-year, it's relatively flat. I think the Cylance number is like $48 million, $49 million for the quarter. It's about that number.

Daniel Bartus

Got you, and then just last one. I'm surprised SG&A is so low. Can you just talk about if you feel like you're investing enough for growth, and does it make it sense, this is kind of the trough level for SG&A? Thanks.

John Chen

Yes, I'm glad you asked this question. We are spending—we did two things to fund our go-to-market engine. We moved a lot of the headcount, and, unfortunately, some of the headcount we had to reduce and then hire back in some other area, we've done a little bit of that, but in the beginning, earlier on, not during this pandemic period, we have—we moved the resources from the back office to the front line. So, the back office has reduced and streamlined quite a bit, and reductions pretty much across the board, whether it's Finance, HR, Legal, IT, we have really streamlined it. Because, one of the benefits of grouping the Company, the businesses together, is that we actually could reduce overhead. For example, you don't need three different Finance Teams, you only need one. You don't need three different groups of contracts people, you only need one, maybe a bigger one, but you only need one. So, it helps a lot. Then, we moved—and this is by design—we moved that—I call it a 10% move. We moved 10% of our resources from the back office to the front, and then hired the people that way. So, a lot of these people are going through trainings and stuff. We also increased our executive ranks by recruiting more talent from the outside and augmented the people we have here today. So, we're basically all in to do sales and marketing, feeling very comfortable in that. We're actually hiring a lot of people. I named you a couple of executives. We probably have another 100 reqs that are being recruited right now in sales and marketing as we speak.

Daniel Bartus

Great, that's really helpful. Thank you.

John Chen

Sure.

Operator

Your next question comes from Paul Treiber with RBC Capital Markets. Please go ahead.

John Chen

Hi.

Paul Treiber

Hi there. Thanks very much.

John Chen

Sure.

Paul Treiber

First, a high-level question on strategy. With this environment, we're seeing tremendous uptake of video conferencing. BlackBerry is known for secure communications. You have email, BBM and voice, but no video. How do you think about video as a category? Is it something that you see as critical or not synergistic with the bigger picture portfolio that you're building?

John Chen

It's not critical, Paul. I mean, it could get synergistic, but I'd rather do it with partners. For example, we're doing a ton of security work with a number of the main players that you could probably close your eyes and recite, so we'd rather do it that way. Now, messaging and voice is different. We have good products and we're pushing that in messaging and voice, but the reason why I didn't really turn to video is I find that a really crowded place and I'm not quite sure that I want to dilute ourselves to yet one more thing. Now, eventually, if the market, and therefore our customers, say, "Hey, you've got to integrate video", and by the way we integrate with Zoom, WebEx, Teams, etc. Nobody has called me and said, "Hey, I can't buy your software because it didn't work with the video conferencing that I wanted." In some cases, we use container under the UEM to manage the security of some of these conferences. So, today, I'm trying not to dilute more, get my UEM, UES launched properly. In the future, it might be something of interest, but I'd rather go through a partner.

Paul Treiber

Great, thanks, that's a helpful perspective. In regards to IP licensing—and obviously you sound positive going into this quarter. Now, given there are given travel restrictions and social distancing, and whatnot challenges, what's the process for closing deals in this environment, and can you do a lot of it, or all of it, remotely, or are you assuming some relaxation of the measures to have in-person negotiations?

John Chen

Well, you know I'm a—I hope everybody will give me credit as a reasonably safe guy, conservative guy. So, when I told you that we're going to have a reasonable Q2, a good Q2 especially for licensing, we pretty much—I mean, I wouldn't use the words "in the bag," but we'll deliver that. Now, the answer to your question really is in stages. If I'm approaching a licensee, a potential licensee for the first time, and especially overseas, that is going to be delayed. It could be delayed indefinitely, and that's a function of—well, in the beginning, you don't send people a letter and say, "Oh, by the way, why don't you license from me?" You really have to have a face-to-face conversation and talk about design, talk about claim charts, presenting claim charts. There's a process for these sales. So, now, at the end, when you're really talking about terms, like "Okay, so, how long will I be cross-licensing with? What categories are not included?" When you're down to that conversation, you could do all that by video conferencing or phone. It's really the stages of the pipe. In this particular case, we believe that we have Q2 under control.

Paul Treiber

One last one for me. I think last quarter you mentioned you had $30 million in new pipeline from that free trial that you're offering. Could you provide an update on the pipeline, or perhaps how the conversions have been going?

John Chen

I didn't keep track of it, but the conversion usually of those pipes is reasonably good. The pipeline at that stage, I think normally converts two-and-a-half to one, you know. This one may be a little better than that, because the trial is pretty much driven by special circumstances. So, I'd say the conversions are reasonably good.

Paul Treiber

Perfect. Thanks for taking my questions.

John Chen

Absolutely.

Operator

Your next question comes from Todd Coupland with CIBC. Please go ahead.

John Chen

Hi, Todd.

Todd Coupland

Hey, there. A quick question on Opex, a follow-up from the SG&A question. If we think about the $151 million in the quarter, how should we think about that flexing over the course of the year?

John Chen

Okay. Steve had mentioned we benefited a lot from no travel, we benefited a lot from the shutdown. But I would tell you I'm here right now sitting in our San Ramon office, unfortunately, looking at Chris, but I have to do what I have to do, and we are gradually opening up. There are six offices in multiple phases around the world that have opened up, and there are about another 20 or so that will be opening up. Now, when we say "opening up," this is a good time to talk about it. We have an internal process that the industry has well accepted, which is (a) we follow the government guidelines around the world, (b) we do it by phases. Like, right now, San Ramon, is opening up by phase one, meaning only about 20% of our population is allowed to return back to work. Everybody else still remains working from home. Then 50% in phase two, which will have a lot to do with the country, the county, the provisions, the provinces, and so forth, to see how the health situation progresses, and then phase three is 90%, and it's ties to school opening and childcare, and all that good stuff. So, we have a very thoughtful process that we laid out.

Now, the reason I take you down this path on answering your question about expenses is that we will see expenses start going up, and in addition to that, we are hiring a lot of people on a global basis. Interestingly enough, this is not a bad time to hire talent. I don't know why. As long as I'm the beneficiary of this, that's okay, I'm not complaining. So, you'll see our sales and marketing costs go up. Since we're doing most everything virtually, we should still save money on travel. We will save money on actual shows that we go to, that we're no longer going to, for example. So, there is a give and take there, but you should see it trending up.

Todd Coupland

Okay, that's very helpful. Then, my second question. You gave a few hints on longer term growth rates. It seems like your Software and Services group, the new bundle, you were giving hints in the 10% to 15% range. Is that the way to think about that business once we get through the pandemic?

John Chen

Yes, I mean, I would like to see double-digit growth, yes.

Todd Coupland

Great, thank you.

John Chen

Sure, of course. Thank you.

Operator

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, Josh. Okay, look, before I close, I'd like to mention our recent announcement demonstrating our commitment to the Sustainable Development Goals initiated by the United Nations. I'm very proud that BlackBerry continues to contribute towards making the world a better place, and I hope a lot of you agree with me, I'm sure you do, and we have made significant progress towards our goal to become carbon neutral by 2021. We'll get to carbon neutral by next year.

I'm sorry this is later in the day for the East Coast friends of ours, but thank you very much for joining us today, and stay safe, stay healthy, and I hope to see you guys in person soon.

Operator

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