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BlackBerry Ltd. (BB)

Q4 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the BlackBerry Fiscal Fourth Quarter and Fiscal Year 2018 results conference call. My name is (Carrie), 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 0. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to our host for today's call, Christopher Lee, Vice President of Finance. Please go ahead.

Christopher Lee
Vice President, Finance, BlackBerry Ltd

Thank you, (Carrie). Welcome to the BlackBerry Fiscal Fourth Quarter and Fiscal Year 2018 results conference call. With me on the call today are Executive Chairman and Chief Executive Officer John Chen, and Chief Financial Officer and Chief Operating Officer Steve Capelli. 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 and the Investor Information section at BlackBerry.com. A replay will also be available on the BlackBerry.com Web site.

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, including the risk factors that are discussed in the company's annual information form which is included in our annual report on Form 40-F and in our MD&A. 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 and their summary of our quarterly and annual results. For a reconciliation between our GAAP and non-GAAP numbers, please see the earnings press release and supplement published earlier today. Also, please note the free cash flow amounts that John and Steve will share for the fourth quarter and fiscal year 2018 are before considering the impact of cost related to restructuring and transition from the hardware business and the net impact of arbitration awards and damages.

I will now turn the call over to John.

John Chen
Executive Chair & Chief Executive Office, BlackBerry Ltd.

Thank you, Chris. Good morning, everybody. As Chris stated earlier, I will reference non-GAAP numbers in my summary and our quarterly and annual results. I'm very pleased with the execution

in both our fiscal years as well as our fourth quarter. Fiscal year 2018 was a good year. We achieved 14% software and services revenue growth year-over-year on the strength of all our businesses. These results were the higher end of our guidance of 10 to 15%.

This was the first quarter where all three of our software businesses grew both year-over-year and quarter-over-quarter. In the fourth quarter, year-over-year revenue growth -- for software and services -- was 13%, which comprised of the following. Twelve percent came from the Enterprise software, 4% came from licensing and IP, 31% came from BTS. BTS performance was strong in the quarter, particularly for BlackBerry QNX.

We also achieved positive earnings per share and positive free cash flow for both the fourth quarter and the full fiscal year. As a reminder, it was only 18 months ago that we announced our exit from handset manufacturing. You may recall the outlook at that time we provided or at the beginning of the fiscal year 2018, where we forecast that BlackBerry will shift from a hardware to an Enterprise software model while growing software and services revenue at or about the market, achieving profitability on a non-GAAP basis and generating positive free cash flow.

It was complicated and tough work, but we accomplished all those operational and financial objectives and metrics. Our strategy is working. Customers, partners, and industry analysts alike recognized our innovation as well as our market leadership. This gives us confidence that we could capitalize on the significant market opportunity available today as well as in the future.

Now, let me provide some highlights for the quarter. Total quarter revenue came in at \$239 million. Total software and services revenue was \$218 million, which was the third quarter of sequential growth and broke the revenue record that we set last quarter. Gross margin came in at 79%, which is another record high. Operating income was \$19 million and operating margin was 8%. That's versus 4% a year ago. This is the eighth consecutive quarter of positive upgrading income. Earnings per share was 5 cents. Total ending cash and investments were \$2.4 billion.

Next, here are some of our significant highlights by businesses. I'll start with the Enterprise software business first. Revenue grew for the third consecutive quarter. Billings also grew double digits year-over-year for the third consecutive quarter against a very tough comp if you guys remember a year ago. We kind of started this move a year ago. Our results were strong across industry verticals as well as products and geographies.

We experienced continued strength with the US and German governments as well as broadening our reach in the government sectors globally. A notable deal in the sector in the past quarter was for the US Air Force, who have been deploying our end-point management solution. The solution - this solution is the only FedRAMP authorized crisis communication product in the market which will cover over 1 million personnel and their families in about 200 locations worldwide.

In total, the government verticals delivered more than 40% of our Enterprise software business. We also experienced good traction in the other industry verticals, where we had traditionally performed well, such as financial services. Recently, we are starting to see an uptick of wins and activities in the medical and healthcare sector. In the quarter, we have approximately 3,500 Enterprise customer orders.

Last week, we announced a pretty exciting new product, BlackBerry Enterprise BRIDGE which BlackBerry developed in collaboration with Microsoft. BRIDGE is the industry first of its kind solution, allowing customers to seamlessly use native Microsoft applications from within the BlackBerry Dynamics container for both Android as well as iOS devices. Our expanded partnership with Microsoft underscores the value we bring to Enterprise clients by providing the highest level of mobile productivity as well as mobile security.

Next, I will discuss our licensing business. Our business continues to grow year-over-year and perform better than we expected. IP licensing is the largest component within this business. As I

noted last quarter, we see the revenue run rate for our IP license to be approximately \$100 million on an annual basis. Our software license business showed progress as our Asia based partners begin to ship the BlackBerry KEYone during the fiscal quarter. We are also starting to expand our technology licensing business into the consumer electronics sectors, broadening our reach in Enterprise of Things.

After the quarter ended, we announced a technology and brand licensing deal for BlackBerry Secure with Punkt AG which is a leading Swiss consumer electronics company. Punkt will bring to market a range of highly secure consumer IoT products that embed BlackBerry cyber security technology.

Moving onto BlackBerry Technology Solutions business, BTS, which includes embedded software and asset tracking. Growth was primarily driven by BlackBerry QNX.

I know a bunch of you are waiting on this. So were we, by the way. Supported by the design wins we previously communicated. Over the last 12 months, we have seen clear proof points of how BlackBerry embedded software is enabling automakers to deliver next generation connected cars. We're winning because the auto ecosystem is now recognizing the increased importance of safe and reliable software used in connected and autonomous vehicles.

Good proof points of this came from the fourth quarter, when we announced partnerships with (Baidu) and (NVIDIA), who chose our safety certified QNX operating system. And at the North America International Automotive Show, we announced Jarvis, a transformational cyber security product. Jarvis is a unique cloud based, binary code scanning solution that efficiently identifies vulnerabilities in software used by automakers.

Jarvis is intended to represent a family of cyber security tool sets which, in the future, BlackBerry could offer and generate recurring revenue streams. Jarvis is ideal for complex programming and

code integration. Jarvis has the potential of expanding other verticals, like healthcare as well as the consumer markets.

After the quarter end, we were chosen by Jaguar or Jaguar (pronounced JAG-wire or JAG-u-war), depending, like, which part of the continent you came from. I'll use Jaguar, being from the West Coast of the United States -- Jaguar Land Rover to develop technology for their next generation vehicles.

Jaguar Land Rover will license BlackBerry QNX and Certicom technology. BlackBerry QNX will assign a dedicated team of engineers to assist. This direct relationship with a second auto OEM emphasizing increased attention in the values that OEM plays or is placing on ensuring that the future vehicle platforms are built with safety certified software.

Moving onto our asset tracking business, BlackBerry Radar reported its first ever million-dollar revenue quarter. While the quarterly revenue is not yet significant, we did see contributions on the partnerships with Fleet Complete and Pana-Pacific that we announced last quarter. We also signed several new deals for Radar in the quarter, including one with Canada Bread, the leading producer and distributor of packaged bread...distributor of bread and bakery products in Canada. Packaged bread doesn't sound very appetizing.

More importantly, the number of opportunities in our pipeline continues to grow, increasing by over 20% from last quarter. We're starting to see the returns on the go to market investments that we discussed two quarters ago and we are now planning to enter markets beyond North America.

Our business highlights this past year have been positive and are positive indicators - and they are both positive indicators of our progress made towards achieving our vision -- our vision to secure the Enterprise of Things.

The demand for managing secure and reliable connectivity have increased in line with the number of connected Enterprise endpoints being added according to the Gartner's December 2017 forecast. Now I'm forced to tell you the report that it came from, otherwise I wouldn't be able to use the data. The report was from Gartner, it was called The Internet of Things Endpoints and Associated Services Worldwide. The data is that IoT will grow at a 32% (CAGR) - compounded annual growth, sorry, from 2016 through 2021, reaching an installed base of 25.1 billion units.

We see our Unified Endpoint Management and embedded software business as synergistic with this trend. We believe that this vision translates into long-term growth and shareholder value creation. I will now turn the call over to Steve to provide more details on our performance.

Steve Capelli

Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

Thank you, John. My comments on our financial performance for the fiscal quarter end year will be in non-GAAP terms unless specified otherwise. I'm also pleased with our performance in the fourth quarter and for fiscal year 2018. We delivered fourth quarter non-GAAP total company revenue of \$239 million and GAAP total company revenue of \$233 million. I will break down revenue shortly.

Fourth quarter total company gross margin was 79%, compared to 77% last quarter and up from 65% a year ago. The gross margin improvement of 14 percentage points over a year ago is attributed to the increase in contribution from software and services to our overall revenue mix. For the full year, total company gross margins was 75%.

Our non-GAAP gross margin includes software deferred revenue acquired but not recognized of \$6 million and excludes restructuring program charges of \$3 million, stock comp expense of \$1 million, and other expense of \$1 million. Operating expenses of \$169 million were up 3% sequentially, driven by our planned investments in sales and marketing.

Our non-GAAP operating expenses exclude \$25 million in restructuring charges, \$22 million in amortization of acquired intangibles, \$12 million in stock common expense, and a benefit of \$34 million of fair value adjustments related to the debentures. Non-GAAP operating income was \$19 million, and non-GAAP net income was \$25 million. Non-GAAP EPS was 5 cents in the fourth quarter. For the full year, we delivered non-GAAP EPS of 14 cents versus 6 cents in fiscal year 2017. Our adjusted EBITDA was \$36 million in this quarter, excluding non-GAAP adjustments previously mentioned. This equates to adjusted EBITDA margin of 15%.

I will now provide a breakdown of our revenue in the quarter. Total software and services revenue was \$218 million, representing 91% of total revenue and up from 65% compared to a year ago. For the full year, we delivered total software and services revenue of \$782 million, an increase of 14% year-over-year. This was at the higher end of our financial guidance, provided at the beginning of the fiscal year.

Total handset device revenue was \$2 million, and total SAF revenue was \$19 million. Handset device and SAF revenues continues to wind down as expected, given our exit from the manufacturing of handset devices. I will now provide a further breakdown of our software and services revenue in the quarter.

Enterprise software accounted for 52%. BlackBerry Technology Solutions accounted for 21%, and licensing, IP, and other accounted for 27%. Please refer to the supplemental table in the press release for the GAAP and non-GAAP adjusted details.

Approximately 70% of software and services revenue excluding IP licensing and professional services was recurring in nature. This decrease from approximately 75% in our third fiscal quarter due to strong, nonrecurring government business in the fourth quarter.

Now moving onto our balance sheet and working capital performance. Total cash, cash equivalents, and investments were approximately \$2.4 billion. Our net cash position was approximately \$1.7 billion at the end of the quarter. Aggregate contractual obligations which includes purchase obligations, operating lease obligations, interest payments, and other goods and services utilized in operations, was approximately \$305 million at the end of the fourth quarter. This is down from \$398 million a year ago.

Moving onto the cash flow statement, free cash flow generated in the fourth quarter was \$31 million, which consisted of cash flows from operating activities of \$35 million, net of capital expenditures of \$4 million. Free cash flow generated for fiscal year 2018 was \$47 million, which consisted of cash flows from operating activities of \$62 million, net of capital expenditures of \$15 million. As Chris mentioned at the start of the call, the free cash flow amounts I just stated are before considering the impact of costs related to restructuring and transition from the hardware business and the net impact of arbitration awards and damages.

Before I turn the call back to John to provide fiscal year 2019 outlook, let me briefly touch upon ASC 606, which is the new revenue recognition accounting standard. BlackBerry will adapt the new standard for the first quarter in fiscal year 2019. As such, the fourth quarter and fiscal year 2018 financial results we share today are all under the prior accounting standards. The new accounting standard is expected to have minimal impact on our business model.

However, the change to ASC 606 will likely alter the timing of our revenue as an increasing amount of revenue will shift to a subscription basis for our Enterprise business. The impact will not be as substantial, as companies shifting to the subscription model for the first time. As a reminder, approximately 75% of our annual business is already recurring in nature.

Overall, we see this as positive because ratable revenue streams tend to become more predictable and growth becomes more scalable. We expect to provide additional information under the new

accounting standards when we report our first fiscal quarter of 2019. That concludes my comments.

I'll now turn the call back to John.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Thank you, Steve. Before I start, I want to make a correction on what Steve just mentioned. He said that fourth quarter and fiscal year 218. I mean, you know, this job view's long, but it's not a couple of thousand years long.

Steve Capelli

Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

Yes, okay.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Okay, all right. Let's - I have a few things to - outlook in 2019 financial to share with you. Number one, total company software and services billings we expect to grow to be in double digits.

Second, the non-GAAP EPS to be positive even after the continued investment to capitalize on the growing market opportunities that we spoke about a little earlier. This obviously includes the continued investment on feet on the street, more R&D, and more marketing.

Third, to deliver positive free cash flow before considering the impact of restructuring and any of the legal proceedings that Steve had laid out earlier. So, I would now like to open the call. (Carrie), could you please manage that process for us?

Operator

Thank you. And we will now begin the question and answer session. To ask a question, you may press Star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off, to allow your signal to reach our equipment.

Again, press Star 1 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 question.

And we'll take our first question from Trip Chowdhry, with Global Equities Research.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Good morning, Trip.

Trip Chowdhry

Analyst, Global Equities Research, LLC

Thank you. Hello, thank you, and congratulations for another fabulous quarter.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Thank you.

Trip Chowdhry

Analyst, Global Equities Research, LLC

A couple of questions. First, the US budget. The Department of Defense has more than 600 billion dollars allocated for new equipment and a lot of technology in 2018. Two questions in this. Number 1 is - does QNX have any play in, say, glass cockpits of the fighter aircraft or anything like that?

Secondly, there's a strong push in the budget regarding cyber security and I was wondering if any of those are opening up as an opportunity for you yet.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Okay, first of all, on the QNX side, I don't know the answer to the question whether we got strong push into the defense equipment and the reason is our partners from QNX are typically the defense provider -- the equipment provider. So, it will not be surprising that they will use QNX in some part of the embedded solution.

But as far as we're concerned directly, no, I have not encountered that. However, on the cyber security question is, yes, as you - as I pointed out, we see our government business sector quite strong and I think I referred, you know, referenced the fact that we have 40% of our Enterprise business this past quarter actually came from government sectors, mostly in the United States and Germany and then also other country's governments.

It is being driven -- not only in the United States, but also everywhere else -- but being driven the high awareness of the sensitivity to both cyber security and crisis management. And so in both cases, we do pretty well.

Trip Chowdhry

Analyst, Global Equities Research, LLC

Excellent. Very good, congratulations again.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Thank you, Trip.

Operator

And we'll take our next question from Paul Steep with (Scotia Capital).

Paul Steep

Analyst, Scotia Capital, Inc

John, can you talk a little bit about how you're feeling about the software organization I guess in terms of go to market? I know (you've) invested and been investing in the sales field force. What's you're thinking about over the next year in terms of the build-up of that field force. And I've got one quick follow up.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

So, we just had our sales Enterprise group sales kick off last week. Spirits are very high, you know. Obviously, we coincided that with the Microsoft BRIDGE announcement. So, you know, the sales guys feel very good about our prospects and we're expanding it.

We'll continue expanding it because two major geography, EMEA and North America geography, you know, their year-over-year growth are both quite impressive. And by the way the EMEA team won so we have a little friendly competition, you know, for the last year. So, but they both meet and exceed their numbers so that was a little jabbing back and forth here.

But it's seems to be a, you know, very functionally is quite strong. We're adding, you know, selectively, but we're adding feet on the street. We're trying to make bigger hubs like in Europe and, you know, going after some, you know, very focused businesses, especially related to, you know, like the new partner we have in NATO and new customer we have in NATO and the customers in government and financials and healthcare. So, we continuing to expand it and see the results now.

Paul Steep
Analyst, Scotia Capital, Inc

I guess the final question from me would be maybe your view on the M&A environment since, you know, '18 ended up being a good year. Clean up year, looks like you're on track organically. Should we now be thinking about to hear about more M&A coming out of BlackBerry? Thanks.

John Chen
Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Yes, it continues to be a priority of the small group of people. And we make it also very visible with the board and in discussing potentials. But as I always pointed out, as the market, you know, valuation is still quite high, we want to be very cautious about how we spend the money. And but we will. I, you know, I - being - I if I have to bet on this, I think something is going to happen in 2019. I'm not saying this because I know exactly that we have something right now. But we certainly are talking to enough people.

Paul Steep
Analyst, Scotia Capital, Inc

Thank you.

John Chen
Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Sure, thank you.

Operator

And we'll take our next question from Gus Papageorgiou with Macquarie.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Hey Gus. Thanks.

Gus Papageorgiou

Analyst, Macquarie Capital Markets Canada Ltd

Hey. Congratulations on a nice quarter. Just a couple questions. For Radar, you said a million - you hit your first million-dollar quarter. Is that both hardware and the recurring service fee? Or just recurring service fee? If you could clarify that. And then just on the recurring nature of your business, I think you said 70% of the software is recurring. Can you, kind of, give us a bigger picture - a clearer picture on buy groups so of EMM, the IP, BTS? How much of each of those segments is recurring?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Oh, I can give you some general idea of that. So, let me answer the first question about the million dollars. The million dollars are mostly hardware, because the software, the recurring revenue start coming every time they turn it online. So, it's actually good news because you can see there's a tail and the tail will continue to grow. So it, you know, from a business perspective, it's the right thing. Mostly hardware because of timing, you know, not enough time. It's a little bit of software in there. And then it will continue - it will go.

And as far as the recurrent, the recurring are mostly in the enterprise group. And it's also the enterprise group that has these perpetual ones that because the customer, like a lot of the government agency, they wanted to buy - you know, they still wanted to make procurement based on perpetual because the way they budget. And so, now after 606 got kicked in, or the 606 already kicked in, by the way technically on March 1. Our 606 kicked in, it kind of, now it doesn't matter whether it's - they want perpetual or ratable because we're going to have to take it ratable. And so,

anyway so the other ones are royalty based. Like if BTS has a, you know, QNX are very strong royalty base. As you can see there, we're making our Radar business to be recurring because of the monthly. And we are trying to make our IP business to be predictably recurring. And they are also tied to like in the cases of the handset, you know, we get X dollars a phone that being delivered or being sold. And so, you know, then you could call it royalty. You call it recurring. But it's certainly not a perpetual base. So gradually all our business is going to ratable or recurring

Gus Papageorgiou

Analyst, Macquarie Capital Markets Canada Ltd

Okay, great. Thank you very much. And again, congrats on the quarter.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Thank you.

Operator

And we'll go to our next question from Daniel Chan with TD Securities.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Hi Daniel.

Daniel Chan

Analyst, TD Securities, Inc

Hi guys. I was wondering if you could comment about some of the things you'll be working on with Jaguar. Should we expect something similar or the systems that you worked on with the Jaguar concept car that you launched last year?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Something (Daniel) I - say some more about that. I'm not quite sure.

Daniel Chan

Analyst, TD Securities, Inc

You guys had a Jaguar concept car last year. I think you launched at CES where you showed the instrument cluster, hypervisor, infotainment system. Are there some of the things you're going to be working on with Jaguar? What's the scope?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Yes, it's actually a scope beyond. Actually, it's a scope beyond that. So that particular one is we're using a Jaguar platform to demonstrate our product with the one you saw. And Jaguar now is taking a lot of our technology and try to design a new concept car, a next generation car. And so, I wouldn't be surprised it would come up a little differently because your engineers and designers are always, you know, coming out with something different. But you think about the Jaguar thing you saw, the concept car you saw, was really for us to demonstrate, for example, where's your (cockpit)? We use that - we used that platform to demonstrate.

I could easily use a, you know, a BMW which we have in our lab. We could use, you know, MKZ which we have in our lab. So, we could do that. But it doesn't mean that Jaguar will take that particular what you saw and turn it into a product. They might. But that's not depending on - it's all their car now, obviously.

Daniel Chan

Analyst, TD Securities, Inc

Okay, that's helpful. And any early takers of Jarvis?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Yes. There are. There are - I know there are six POC going.

Daniel Chan

Analyst, TD Securities, Inc

Okay, that's great. And then just one follow on. This has been another quarter of a good license line item beat. Can you give us some color around what was the source of that beat and whether we can expect that to be recurring or not?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Well, we're hoping that, you know, so the billings growth...I like to focus on billing right now. The billings growth are strong. We've been strong in the last three quarters. And yet, you know, so we're now strong in the fourth quarter in a row. We do expect from our sales team that the billings growth will grow to double digit in FY '19. And so that really is the source. It was not any kind of something sudden major or one-time thing. It was really a, you know, the base of the business seems to be much stronger.

Daniel Chan

Analyst, TD Securities, Inc

Okay, great. Thank you.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Sure.

Operator

And we'll take our next question from Paul Treiber with RBC Capital Markets.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Hi.

Paul Treiber

Analyst, RBC Capital Markets

Thanks very much and good morning. Just in regard to the outlook for 2019, in the past year you commented on the revenue growth outlook versus relative to the market. Just hoping if you can provide an update on that - on where you see that going.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Yeah see Steve already warned me that one of you will ask me that question. The reason why I like to focus on billings right now is because I want to see how the 605, 606 sorted out. And, you know, we feel good from a, I guess, a quantitative perspective. We know our teams are winning. You know, we have goals that are better than what other people have stated publicly. So -- but although those are internal goals. So, I think the best thing to do is give us a quarter. Let us sort out the 606. And then hopefully by then we can give you a little bit more color there. But you can take it to the fact that we expect to have billings growth year over year in double digit.

Paul Treiber

Analyst, RBC Capital Markets

Okay, that's helpful. And then just more broadly, just in regards to autonomous. I mean there's been a lot of news on autonomous and you put up that blog post. Have you heard anything from

your partners or customers in terms of changing timelines in terms of expectation for production launches of autonomous or autonomous features? And then related to that, how should we think about, you know, the timing of revenue for QNX for BlackBerry from autonomous?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Good question. So, let me first state BlackBerry QNX are in two categories. And we make money in two categories. One is connected car and the other one is autonomous car. Everybody like to focus on autonomous because a little bit more sexy in the last number of years. But we build, you know, we build most our business on the connected car. So, if you just look at our last quarter's results, QNX actually grew 31% year over year. And so that comes not from the autonomous platform, but it comes from the connected platform.

So, and it comes from a connected platform beyond infotainment which has always been our strategy and we stated that strategy beginning of last year in San Ramon. So, I'm really glad that the team are executing to what we said. And here are the results. I - QNX actually looks to having, you know, reasonable quarters going forward also. So that - so then it go back to the autonomous. We always thought that the most aggressive people were BMW and Honda that wanted to get an autonomous vehicle on the road by 2021 so you and I could buy. You know then lately I start hearing the 2025 number. But it does not affect BlackBerry as much so long as I continue to win the design win. I have, you know, development seats and hopefully they will use Jarvis and, you know, so we could have revenue for the autonomous on a continual basis. But we definitely will get good revenue from the connected car. Does that help?

Paul Treiber

Analyst, RBC Capital Markets

Yeah, that's helpful. Thank you. I'll pass the line.

Operator

And we'll take our next questions from Todd Coupland with CIBC.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Hi Todd.

Todd Coupland

Analyst, CIBC World Markets, Inc

Yeah, good morning. I had a question on self-driving as well. So, John when you look across the competitive landscape, it seems to be quite fragmented for different offerings. I know your argument is security. If you, sort of, like look out a couple of years, how do you see the market landing? Do you think design wins are going to be concentrated in a few hands? Or will the market stay fragmented? Just give us your view on that.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

I think there will be, you know, from the local things, there will be a number of Tier 1s. Today there are probably I could name you about ten Tier 1s around the world. I'm sure there are a lot more than ten Tier 1s. But the ten Tier 1s that the names that we all talk about either they're my customers or, you know, my OEM customer being their customer. So, there's about ten Tier 1 of them and these are the, you know, the Harman, the Bosch of the world. And I suspect those Tier 1s will shake out to be a handful maybe, you know, three or four and become, kind of, the industry standard platform that automobile company build on.

You know, so my strategy or our strategy is as long as we are the component provider to all those four, five, three, you know, then BlackBerry will do pretty well. And I don't see any reason why we

wouldn't be. We've been talking to them. They don't look at us as competitors. Now they, the Tier 1s have to deal with, you know, a kind of a dividing line between that and the Google and the Apple aspiration and whether they wanted the data layer or they want the presentation layer, the maps layer, or do they want beyond that? And again, I'm a component provider. I seldom run into Google Carplay or, you know, and Waymo definitely is not my competitor. They could be my customer. And Apple - we don't run into each other.

They definitely could have a secret project. Try to provide all the components also, but I think the Tier 1 are more comfortable dealing with me because I will never get, you know, get into their space. I mean I'm not going to get into the integration of technology or putting a concept together. So anyway, I'm sorry I ramble on a little bit because it's very complicated market. It's one that has a lot of players in it. But I think we found our niche pretty well.

Todd Coupland

Analyst, CIBC World Markets, Inc

Yeah, no that's helpful color. And then my second question has to do with enterprise software. You know, you're calling out double digit growth. Kind of feels like a flat market. Will it continue to be further penetration and government in 2019? Talk about what are the sources of growth in that business. Thank you.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Right, government and financial still have a lot of growth in it. You know, obviously we have to innovate to have new products. And, as I said earlier, we starting to feel healthcare and another sector which is gas or energy sector, seems to, you know, have a lot of opportunities, lots of activities I'd say. So, it's the cybersecurity and protection of cybersecurity in the mobile infrastructure is important. So I, you know, I feel that is a source of growth.

There's another source of growth which is geographic. And part of our plan investment is to add increased resources in Japan, Korea and China as well as India. India we actually now have a new country manager. So that is another potential source because it's a pretty green field out there. And then in addition to that, we ready ourselves with some new product upgrades to add on or upsell, you know, in crisis management, in secure file sharing and in a BRIDGE app that we talk about which, you know, which is a - people ask me. Why is it a big deal? It's a big deal because Microsoft and us got together and, you know, we could use our container which is the most secure way to wrap their code. And everything will look native to the users. Which is something that today people wanted, but they don't - they can't get it. So, they could get native. But they can't get the security of the containers. But now they could get both. And so, we believe that our customer base would like to upgrade to that.

Anyway, so we have product potential growth. We got vertical expansion growth. And we got geographic growth. Not everything will all work perfectly. I mean I know that, okay. But if we work at it, you might see a good run there.

Operator

And once again, if you'd like to ask a question it is Star 1 to signal. We'll take our next question from Vijay Bhagavath with Deutsche Bank.

Brian Yun
Analyst, Deutsche Bank Securities, Inc

Hey.

John Chen
Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Hi Vijay.

Brian Yun

Analyst, Deutsche Bank Securities, Inc

This is actually Brian Yun for Vijay. Hey, can you hear me?

John Chen:

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Sure, we can hear you.

Brian Yun

Analyst, Deutsche Bank Securities, Inc

Oh, thanks for taking the question. Can you help us understand gross margins in FY '19 or 2019 and sort of the out years now with the majority of your handset business out of the model? Is it reasonable to sort of assume gross margins in the high 70s range? And what could impact that even to the upside or to the downside?

Steve Capelli

Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

If we look at our gross margins, you know, there's a cost of goods sold which is relatively stable. So, as you look at the gross margins, if our revenues were in the 200 million range, there would be - they should fall in the low 70s. And if they were in the 225, it starts to move to mid. And then it starts to obviously ramp to the high 70s with the numbers that you've seen this last quarter. So, part of that is some fixed costs and moving on.

There will be some downward pull on the margin related to professional services which we have high margins for the industry but not necessarily overall. And naturally Radar brings some hardware with it. But given those, the size of those numbers, it should not be substantial. So net net, I would see the beginning of the year being in the low 70s moving up through the high 70s. But once we work through the year, I think it'll be in the high 70s going forward.

Brian Yun
Analyst, Deutsche Bank Securities, Inc

Thank you.

Operator

And we'll take our next question from Steven Li with Raymond James.

John Chen
Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Hey.

Steven Li
Analyst, Raymond James Ltd

Thank you. John, the QNX growth in Q4, the connected platform which you referred to, I assume it's recurring, right? So, \$46 million is your new quarterly base and you grow from here?

Steve Capelli
Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

There is some consulting in there. I just want to say. There's obviously consulting and one-time licenses. But John you want to?

John Chen
Executive Chair & Chief Executive Officer, BlackBerry Ltd.

The base, yeah, the base is higher. You know, Capelli try to pull you back down. But he's right. No, he's right. You know, I mean there are one-time catch up in there. He's absolutely correct. And there is some professional services and consulting absolutely correct. But we have a higher base. We expect a higher base, correct. So, don't go crazy with that number.

Steve Capelli

Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

Modify.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

But modify a little bit.

Steven Li

Analyst, Raymond James Ltd

Okay, perfect and then on Radar, to set our expectations, right? So, can it become 10% of BTS revenues this year or it's more likely target in 2020? Thanks.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Could it be what?

Steven Li

Analyst, Raymond James Ltd

10% of BTS?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Let me see.

Steve Capelli

Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

So he's taken the 45 and he's multiplying it by four.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

By four in 2020, so they're probably not 10% but close.

Steven Li

Analyst, Raymond James Ltd

Okay, very helpful. Thank you.

Steve Capelli

Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

Particularly as you move to the later quarters as it starts to ramp up with its own recurring model.

Operator

And we'll take our next question from James Faucette with Morgan Stanley.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Hi James. How are you?

James Faucette

Analyst, Morgan Stanley & Co. LLC

Well, thank you. Thank you for your questions. Just a follow up question on the previous one. When you say the base is higher, are you speaking about - was it higher than previously or higher than, I guess, the revenue you hit this quarter?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

No, higher than the previous. Because there are last year, last couple of years, you know, there was a certain base on QNX. And you know, we believe now the base is going to go higher. And, you know, to follow up on the last question, Steven also, you know, if I said, which is true, that

Steven pointed out. There are some one-time in there. There was one-time catchup of one royalty. And there was a little bit of a consulting services in there. The consulting services could actually be continued. You know, not that particular account maybe, but there will be consulting services revenue. And catchup is probably harder to predict. So, if you moderate that a little bit, even if you moderate that a little bit, we do have a stronger base business now versus a year ago on QNX.

James Faucette

Analyst, Morgan Stanley & Co. LLC

Sure. And I also want to be sensitive to there are some accounting-related changes, but how should we think about the timing and the ramp as we go through the year particularly with, kind of, new models beginning to launch and that kind of thing? I just want to make sure we're not messing up our modeling and assumptions as we go through the year.

Steve Capelli

Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

You know, I think what I've described previously, so let's take one step back and really on the last question. So, we were running in the high \$30 million on a quarterly basis for a period of time, then the low 40s and now we're kind of in the mid-40s and I think in your question really was, you know, If we looked at Q3, Q4 was a little higher than Q3. While it was not significantly higher, you know, it starts to move the new base into like that \$45 million range. And I think what we've said all along was we expect it in the second half to have another uptick. And part of that was from other design wins.

Now that uptick may not be, you know, \$5 million, but the uptick you'll see, an uptick in the second half from the first half. And that's because of the new cars coming out with design wins that we had brought from a couple years ago.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

I don't think - James I think are you talking about the company or are you talking about QNX?

James Faucette

Analyst, Morgan Stanley & Co. LLC

I'm talking about QNX, thank you.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Okay, good.

Steven Capelli

Chief Financial Officer & Chief Operating Officer, BlackBerry Ltd.

And then we got it.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Absolutely correct.

James Faucette

Analyst, Morgan Stanley & Co. LLC

Yeah you got it. And then, sorry, then my last question is you had it looked like restructuring charges were a little bit higher this quarter than the same quarter last year. Is that something that we should continue to expect and just, kind of, matter of businesses that particularly in the fourth quarter, there will be some restructuring? Or is there something unique this year?

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

No, it should start ramping down over time. These are getting our facilities mainly around, you know, globally when we don't do manufacturing handset. So, it's really related to those. That's the biggest chunk of them. We're not really doing any full-on restructuring.

James Faucette

Analyst, Morgan Stanley & Co. LLC

That's great. Okay, that's great. Thank you so much.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Sure, thanks.

Operator

And it appears there are no further questions at this time. I would now like to turn the call back over to Mr. John Chen for any additional or closing remarks.

John Chen

Executive Chair & Chief Executive Officer, BlackBerry Ltd.

Thank you. Before closing the call, I'd like to mention our upcoming analyst summit on April 24 in the Bay Area. As you remember, we referred to a year ago we talk about the strategy of QNX and how it moved forward. I'm very pleased with the fact we were able to deliver the growth. We talked about the enterprise strategy and, you know, we had customer came in to testify - testify is the wrong word. You know, to support us about how important is for our cybersecurity, you know, that is embedded in our UEM. You heard that and you saw our - I hope that you are satisfied with our growth. We are very - we are quite pleased with the growth we had.

And so this coming year, since we only do it once a year, we will discuss the synergies between the UEM group and the embedded software group. So, don't miss that. So, and the roadmap to, kind of, take our company, you know, make it even more stronger and in product and in competition.

So please don't miss that. I look forward to seeing you there. And have a good day.

Operator

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