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BlackBerry Ltd. (BB)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the BlackBerry Fiscal First Quarter and Fiscal Year 2019 results Conference Call. My name is Leanne 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 for 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 Leanne. Welcome to the BlackBerry Fiscal Year 2019 First Quarter 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 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, 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 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. I will now turn the call over to John.

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

Thank you. Just in case you didn't hear Chris, I'm using non-GAAP number. Good morning everybody. We are off to a pretty good start for the fiscal 2019. We continued the momentum from the second half of last year or the last fiscal year. We see strong customer demand for our security-focused products resulting in double-digits year-over-year software and services billing growth in the first quarter.

The business that's shown the best momentum are two, the BlackBerry Technology Solutions and the Licensing business, which I will elaborate on that a little later.

We are on track to deliver - to achieve and deliver our financial guidance for the fiscal year 2019, which we just started. The guidance are double-digit billings growth in total software and services, positive earnings per share and positive free cash flow.

Let me now provide some highlights for the quarter. Total company revenue came in at \$217 million. Total software and services revenue was \$193 million, which was a 14% increase year-over-year. Gross margin was 76%. Operating income was \$12 million and operating margin was 6%. Earnings per share was three cents. And total ending cash and investment were \$2.3 billion.

Next here are some of the highlights by business. In the BlackBerry Technology Solutions group, which include embedded software and asset tracking, the revenue grew 31% year-over-year driven primarily by BlackBerry QNX software embedded in connected and autonomous auto platforms.

QNX continued strong year-over-year growth momentum with several new design wins. One of the design wins was in digital instrument cluster for a major auto OEM through our partner, Tier 1 partner, Denso. Unfortunately, we don't have permission to state the name of the customer - the end customer. We are however very excited about this partnership win with Denso and the long-term business opportunity with both Denso as well as the customers.

Another design win was with Byton. Byton is a China based electric car start-up, which has been publicly referred as a rival to Tesla. Byton has global aspirations and has target to make its car first available in China starting in 2019 and go global from that point. As you may be aware, China is the largest and one of the fastest growing electric passenger car markets in the world with a very strong government mandate.

These design wins reference the importance and success of our - reinforce, sorry, the importance and success of our strategy to contribute at each level in the broad auto ecosystems. The companies in the ecosystem starting with the auto manufacturers, which we loosely call OEMs, Tier 1 suppliers and chip supplier, they all recognize the increasing importance of the safety and reliability capabilities provided by BlackBerry QNX software.

In addition to the OEM design wins, we added several worldwide channel partners for QNX in the quarter. Those include Hitachi ULSI in Japan and Sasken Technologies in India. This supports our previously stated objective that for this fiscal year, which - for fiscal year, we focused on expanding our sales channel, especially in Asia Pac, Asia Pacific that is. The addition of these partners is a good start.

Before I move on to our asset tracking business, many of you are aware that QNX is embedded in 60 million cars, six zero. The statistic actually was from June 2015. This month we received validation from Strategy Analytics, an independent third-party with updated numbers. We are

proud to say that we are now in over 120 million cars, more than doubling the install base three years ago.

On the technology front in QNX we continue to innovate. In the quarter we announced update to our QNX Operating System, Hypervisors as well as the Advanced Driver Assist platform to improve the ease of use and enhance the safety features. These updated products support both ARM and x86 architectures and of course adhere to the higher safety standard - certification standard.

Moving on to our asset tracking business. BlackBerry Radar continues to show positive momentum from last quarter. We signed several new deals for Radar in the quarter with a number of North American trucking companies. We are also seeing an increase in repeat buy from multiple existing customers.

Names that I could mention are Flexi-Van and FedEx Custom Critical. The number of opportunities in our pipeline continues to grow, measured by both the number of accounts and the total dollar values. More importantly, our conversion ratio of pilot to revenue is high for the industry standard.

Next I will discuss our licensing business. Licensing revenue experienced strong year-over-year growth, as our base of recurring revenue continues to grow. Our technology licensing business showed progress as TCL, which is our Chinese handset partners, launched BlackBerry KEY2 several weeks ago with positive market reception. Optiimus, our partners in India will launch multiple BlackBerry smartphones for the India market starting this summer.

Yesterday one of our consumer electronic partners, Punkt announced a new mobile phone with BlackBerry cyber-security technology integrated in the phone. In addition, after the quarter end, we signed a technology and brand licensing deal with Bullitt Group, an international manufacturer

of branded connected devices, broadening our consumer reach. During the quarter we strengthened our IP licensing business and we now expect to do better than the \$100 million annual run rate for the IP licensing that I mentioned in prior quarters.

Now I would like to discuss a little bit about Enterprise Software business. I know several of you were disappointed that we did not provide fiscal 2019 revenue guidance during our last earnings call. The reason we did not at that time was because we wanted to get a better understanding of the impact of the new revenue accounting standard ASC 606.

This change in accounting requires us to recognize more of our software and services revenue on a ratable basis because we deliver a service component to our customers through our secure network operation centers. This aligns well with our long-term strategy to move to a more recurring software and services revenue model. We believe this model is better as it is more predictable.

This change in accounting also led us to modify our business practice where we no longer offer perpetual software licenses to our customer except for certain large government customers. As a data point, perpetual licenses accounted for approximately 20% to 30% of our Enterprise Software revenue last fiscal year.

So consequently, if you look at our number revenue billings were negatively impacted temporarily in the quarter. However, recurring software and services revenue increased to approximately 86% from 70% in the fourth fiscal quarter of 2018. Our long-term goal is 90% plus in recurring software and services revenue, which I believe that we could accomplish within a year.

Our definition of recurring software and services revenue remained consistent. This is the lawyer's words. It is total software and services revenue excluding IP licensing and professional services. I'll put it on the website by the way just to make sure.

In the quarter we witnessed continuous spend by worldwide government agencies for our Enterprise Software solution.

In the U.S. we added three new FedRAMP customers resulting in a 13% sequential increase in FedRAMP users of our crisis communications solution. In addition, our endpoint management solution is also in the FedRAMP certification process.

Outside of the United States some notable customer wins in this government sector including the BRI Bank, which is one of the largest banks in Indonesia, the Department of Health in Abu Dhabi and the Government of Canada for the G7 Summit.

We also experienced strong growth in the healthcare vertical, doubling the number of closed deals both year-over-year and sequentially.

Data security and data privacy is now on top of mind of many of our customers and prospects. Our ongoing conversations with decision makers highlight that protecting data is now mission critical for their business. This heightened awareness is very encouraging to us as these conversations play to BlackBerry strengths because we are one of the few companies in the world to have assets and qualification in data security, data privacy and mobility.

I will now turn the call over to Steve to provide more details about the impact of 606 and our financial statement as well as our quarterly performance.

Thank you John. My comments on our financial performance for the fiscal quarter will be in non-GAAP terms unless specified otherwise.

Before I go through the quarterly results, I'd like to summarize four primary points from the implementation of ASC 606 impacting our financial statements.

First, we adopted ASC 606 using the modified retrospective method. Under this method, we are not required to restate our financial statements. This means that the income statement information shown for FY18 is under the prior accounting standard, ASC 605; and the income statement information shown for FY19 is under ASC 606. Noting that it creates comparability challenges, we have provided data to compare both periods under ASC 605 in our footnote disclosure. We will also provide a verbal comparison for both periods under ASC 606, which are un-audited and I will do so for Q1 '19 shortly.

Second, under the modified retrospective method, there is a one-time cumulative transition adjustment increasing our deferred revenue balance by approximately \$100 million with an equal decrease to retained earnings.

Third, the perpetual software licensees we transact will now be recognize ratably instead of upfront as it was previously. This is because we deliver a service component to our customers with the use of our secure network operations center. As a result, recurring revenue is expected to increase over time.

And fourth, sales commissions are now recognized in conjunction with the matching revenue. This change is expected to have an immaterial impact to our financial statements. There is no

impact to billings or cash flows from this new accounting standard. Additional details can be found in our public filings, which will be posted on our Investor Relations website later today.

Now let me recap our first quarter results. We delivered first quarter non-GAAP total company revenue of \$217 million and GAAP total company revenue of \$213 million. I will break down revenue shortly.

First quarter total company gross margin was 76%, up from 67% a year ago. The gross margin improvement of 9 percentage points from over a year ago is attributed to the increase in contribution from software and services to our overall revenue mix. Our non-GAAP gross margin includes software deferred revenue acquired but not recognized of \$4 million and excludes stock compensation expense of \$1 million.

Operating expenses of \$154 million were down 9% sequentially, resulting from lower legal and bad debt expenses and a smaller expense impact from foreign exchange. Our non-GAAP operating expenses exclude the charge of \$28 million related to the fair value adjustment on the debentures, \$22 million in amortization of acquired intangibles, \$17 million in stock comp expense, \$4 million in restructuring charges and \$1 million of acquisition and integration costs. Non-GAAP operating income was \$12 million and non-GAAP net income was \$17 million.

Non-GAAP EPS was three cents in the first quarter. Our adjusted EBITDA was \$31 million this quarter, excluding non-GAAP adjustments previously mentioned. This equates to an adjusted EBITDA margin of 14%.

I will now provide a breakdown of our revenue in the quarter. Total software and services revenue was \$193 million, representing 89% of total revenue and up from 69% compared to a year ago.

Total SAF revenue was \$16 million and total handset revenue was \$8 million. SAF revenue continues to wind down as expected. Handset revenue resulted from the release of accrued expenses reconciled to historical carrier agreements. These expenses were accrued for in prior periods and benefited EPS.

I will now further break down our software and services revenue in the quarter. Enterprise Software accounted for 43%, BlackBerry Technology Solutions accounted for 24% and Licensing IP and other accounted for 33%.

Please refer to the supplemental table in the press release for the GAAP and non-GAAP details. As we noted last quarter, ASC 606 only impacts our Enterprise Software and Services business. On an apples-to-apples comparison under ASC 606, revenue declined 11% year-over-year.

Now, moving on to our balance sheet and working capital performance. Total cash, cash equivalents and investments were approximately \$2.3 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 \$325 million at the end of the first quarter. This is a decrease of \$59 million from a year ago.

Moving to the cash flow statement. Free cash flow before considering the impact of restructuring and legal proceedings was a positive \$3 million. Cash used in operations was \$7 million and capital expenditures were \$5 million. This use of cash of \$12 million was expected due to seasonality and the payment of fiscal 2018 bonuses in the quarter.

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

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

Thank you Steve. On the outlook, we affirm our fiscal - we talked about that earlier. We affirm our fiscal year 2019 financial outlook, which are one, the total company software and services billing growth to be in the double-digits; two, the non-GAAP EPS to be positive; and three, to deliver to positive free cash flow before considering the impact of restructure and legal proceedings.

With the ASC 606 now implemented, we are introducing fiscal 2019 guidance for total software and services revenue to be annual growth between 8% to 10%. Our guidance is based on the following. That the BTS continues its double-digit growth throughout the year; the Licensing to perform better than we originally planned; the Enterprise Software to include the impact of what Steve has gone through in detail about the 606; total software and services revenue growth to be weighted towards the second half of fiscal year, very similar to the last fiscal year; recurring software and services revenue to be in the high 80 percent range in fiscal 2019.

With that, I would like the operator to start opening our Q&A session. Operator?

Operator

We will now begin the question-and-answer session. To ask a question, you may press star 1 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, please press star 1 to ask a question. And 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. And we'll take our first question from Todd Coupland with CIBC.

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

Hi Todd.

Todd Coupland
Analyst, CIBC

Morning. So, you know, obviously a few things to clean up here on the quarter. So I'll start with a couple of questions. I'm sure there'll be follow-ups from others. So on the Enterprise Software business, so, it seems like the new run rate is about \$83 million dollars, which was down 11% year-on-year. So is that sort of the baseline we should model from? And then just if it is, talk about the rhythm of that business as we think about it over the next few quarters. Thanks.

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

The baseline probably is correct. You know, we, you know, with this - after the 606 impact, which there is a lot of ins and outs that, you know, so please bear with me a little bit on that. You know, the - we have as I said it earlier somewhere between 25% to 30% of perpetual licenses in prior quarters on average. Those now need to be ratable.

So, and then of course there are - from the accounting rule, there are some deferred revenue movement and so forth. The net of all that is that we think the billings number to be reasonably flat year-over-year. So, it doesn't hurt our business long-term because the reporting of the revenue in the short-term will have to go down by probably, you know, high single digit, low double digits. And that will be the new base.

But from a competitive standpoint - and we also expect looking, you know, our business pipeline that the second half, as I said earlier, are reasonably strong. So it's kind of pretty much parallel

or have the image of the last year. So I hope that I answered your questions. There's lot of in and out. But basic fundamental is we expect the business to continue to grow.

Todd Coupland
Analyst, CIBC

Okay. And then my follow-up was it seemed like QNX was a bit stronger than I was expecting, \$47 million in the quarter. What's the rhythm of that business going to look like particularly with comments about second half being stronger? Thanks.

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

Right. The rhythm is we expect double-digit growth throughout the year. So, as I said, this business for many years ago, you know, you win the design win, you start seeing the royalty and as long as the economy is reasonably robust for the connected cars and the autonomous cars and other platform that we designed in, we expect to see this royalty to continue to uptick.

So every time we reach a base, it doesn't have a lot of wild swing. It just keeps, you know, there will be the new base. So you should see, as I said last quarter, that the mid-\$40s million is a new base. And I'm hoping obviously to go even further as we continue but it's a very steady pace, steady ramp.

Todd Coupland
Analyst, CIBC
Great. Thanks a lot John.

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

Sure.

Operator

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

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

Morning Paul.

Paul Steep
Analyst, Scotia Capital, Inc

Hi. John or Steve, maybe you could talk - obviously you touched on the 606 change. Maybe we could talk about the real world change in terms of the sales force now selling more on a, you know, recurring ratable basis versus a perpetual basis. How should we think about that rolling out and sort of implementing across the field over the year? And maybe then we can follow up and talk about any one-time impacts in the quarter?

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

I think it took a little bit of adjustment when we took perpetual off their - what do you call?

(Crosstalk)

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

Calling card sales kit. But we just met with the team. Our global team came in to Waterloo and we had I would call a decent meeting with them. And they well understood. That is what it is. That is the reality. And it's good for the company because as recurring rate goes up, it makes our business more predictable. And then actually you could argue the margin is better. And so

everybody bought into it. And now we just need to go after the deals not thinking about, you know, this multi-year large thing.

So, you know, I'm comfortable that we're making all the right adjustments. Carl is very committed to this movement. And so he's training and retraining and - his people globally. So I don't see that being a problem on a long term.

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

Yes. You don't have the hockey stick at the end but you have the predictability. And as John mentioned, should be improved margins as well. So we think long-term it's very beneficial.

Paul Steep
Analyst, Scotia Capital, Inc

And just Steve, maybe on the renewals portion and maintenance; how should we think about you transitioning over customers or this is solely new deal we're talking about and existing base sort of stays where it is? And, you know, how would you handle incremental seat sales for an existing client I think is that the struggle I'm having this morning. Thanks.

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

Well, the first thing I want to say is that it'll be for contracts going forward. Second would be there's not an absolute that we would never - obviously we have large government accounts that buy perpetual licenses. And so those items will be taken under consideration. But our sales motion will be non-perpetual and a recurring revenue model. And we thought this was the right time to make that adjustment. And that's why we were able to now give the new guidance.

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

And also with our NOCs, we don't really have choices. I mean it's not like we could, you know, randomly decide. So yes, it is obviously going forward. People who already have the perpetual, we are going need to get them to buy new licenses for new projects. And that's, you know, and then we're - for the one who pay maintenance we'll continue to build their maintenance of course.

Paul Steep
Analyst, Scotia Capital, Inc

Okay. Thanks guys.

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

Yes.

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.

Paul Treiber
Analyst, RBC Capital Markets

Thanks very much. Good morning. Just on license revenue this quarter it was a record high and then you're seeing a stronger momentum in that business. For this quarter is that related to the

handset deals that you have with TCL and others or was there any sort of unusually large IP license deals this quarter?

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

We had some pretty good IP licensing this quarter. No, it's not - we have not seen the effect of the TCL because it just rolled out. So, I'm hoping - I'm very hopeful that we'll see some contribution there in the coming quarters.

Paul Treiber
Analyst, RBC Capital Markets

And then on your comment on billings you mentioned that the enterprise billings should be reasonably flat this year. I assume that relates to the lack of having perpetual license. Should we assume that that should pick up or should we think of that picking up in time as you shift over to selling the SaaS? And then related to that, does that imply your double-digit billings growth for the year that's obviously stemming from licensing and BTS. Is that correct?

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

That is exactly correct. We expect the billings because of the 606 to be pretty flat year-over-year. And then yes, you will see a trend up a year after for sure. Well, that is definitely our plan. And it is our expectation. The proper expectation.

But this year we're going to have to rely - the double-digit billings growth going to have to rely on BTS, which looks pretty solid. And the licensing - recurring licensing revenue and actually that looks reasonably solid too. So I'm - I can't guarantee anything like the safe harbor language that Chris has recited every time. But we feel good with where we are.

Paul Treiber
Analyst, RBC Capital Markets

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

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

(Thanks).

Operator

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

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

Hey Gus.

Gus Papageorgiou
Analyst, Macquarie Capital Markets

Hey, good morning.

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

Good morning.

Gus Papageorgiou
Analyst, Macquarie Capital Markets

(I'm curious). Can you give me an indication on the increase in revenue? Is that because your - is it volumes or is it more cars you're penetrating into or is it that the ASP is going up for cars? Any color on that would be helpful.

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

Oh, this is the BTS revenue growth? Unit count had gone - actually Gus, it's a little bit of both. Unit count had gone up, as - I chose one of the design wins to discuss. It has to do with cluster. In fact, if you - actually both of the design wins I talked about, you know, the one that we won through Denso in Japan and the one, you know, and the China electric company - electric car company Byton, both of them are on the cluster side.

So, as you know, the cluster ASP is higher than the traditional IVI business. But the IVI unit counts are looking good too. So we didn't really lose any IVI account. So it's both. We got more units and in some cases newer (stuff). And we even have some ADAS win.

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

Gus?

Gus Papageorgiou
Analyst, Macquarie Capital Markets

Great. Thank you very much.

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

Yes.

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

Yes. Thank you.

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

Next question.

Operator

And we'll take our next question from Gabriela Borges with Goldman Sachs.

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

Hi.

Gabriela Borges
Analyst, Goldman Sachs

Good morning. Thanks for taking my questions. Mine are also on the perpetual license to subscription, mix transition that's happening. Either for John or Steve, I'm hoping if you can clarify it for us. If I'm a customer and I choose the subscription model, over what period of time do I break even versus the perpetual license and maintenance model?

And then, just a little bit of a color on the billings number. The double-digit billings growth that you're seeing, what is the duration of those billings? Is the sales force incentivized to sign multiyear deals, are there any discounts associated with billing multiple years upfront? And for the guidance assumption, what's the assumption that's embedded in the asset billings? Thank you. On the contract duration.

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

Okay. So, on the first piece, you mentioned on where the breakeven point is. And, you know, typically a perpetual license is roughly a 3.5-year to 4-year recurring license. And so, you would expect the customer to have at least one more re-buying pattern to break even. But then after that, as I think you are alluding to, you would pass the breakeven point. So you probably need two cycles of buying. The other point, John, the other question was related to?

Christopher Lee
Vice President, Finance, BlackBerry Ltd.

The duration of billings and how does that factor into our assumption for guidance.

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

Do we incentivize people to go ahead and get multiyear deal?

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

If they do a multiyear deal, they will be paid for the...

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

No. Do we incentivize?

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

Yes we do.

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

Are we pushing people to do...

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

Yes.

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

...the question is the 14% growth, are we pushing people to do multiyear deal? Although we take it ratable but, you know, so that's the...

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

Correct. So we do have - the incentive is based on their total billings. And so there is an incentive to drive multiyear purchasing.

Gabriela Borges
Analyst, Goldman Sachs

And for guidance, are you assuming that duration in billing stays about constant or are you assuming any increase or decrease in duration assumption?

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

Well the only - the billings guidance we give is on total company. In respect to this, we did not change our model for the duration of the billings.

Gabriela Borges
Analyst, Goldman Sachs

Okay. That's very helpful. And the follow-up is for John on M&A. If you could just give us a little bit of an update on how you're thinking about strategic assets with respect to the M&A strategy. Thank you.

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

Yes. You know, I've always been, you know, in the last few quarters been very consistent. Since the last year, I've been very consistent that we are looking to be active in the M&A where we are - we've been talking to a number of companies continuing to look for strategic assets that make sense. So I obviously cannot, you know, comment more about, you know, where we are discussing or looking at. But, you know, obviously areas of strategic analysis on the cyber-security side, on the mobile side and on the autonomous side.

Gabriela Borges
Analyst, Goldman Sachs

Thank you. I appreciate all the detail.

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

All right. Thank you. Next one please.

Operator

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

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

Yes Daniel. Hi.

Daniel Chan
Analyst, TD Securities

John, at the AGM you talked about how you expect autonomous driving to be more of a long, slow rollout. With your strong BTS numbers and as we look out to the second half of this year as well as next year, how should we think about BTS ramping up? Should we think of it as large step functions like we saw coming from last quarter or should we start seeing a kind of more gradual?

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

More gradual. More gradual. I mean I spoke many times about, you know - well, I mean - let me put it this way, Daniel. Our plan is more gradual. Okay? That doesn't mean that we won't hit

homeruns to give us, you know, a bump, but, you know, but the 3-year plan that we have, for example, in front of us are of a gradual nature.

Daniel Chan
Analyst, TD Securities

Okay. Thanks. And then Steve, on your 8 to 10% software and services guidance, that's under...

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

Yes.

Daniel Chan
Analyst, TD Securities

...the new ASC 606, right? So do you know what that expectation would've looked like under the old accounting rules, just so we have some sort of apples-to-apples comparison on your guidance numbers?

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

Well, we really haven't done comparative of that way because with the lack of getting perpetual licenses, you know, it's hard to configure. In a short answer, I would say if you took 20 to 30% of our business called the perpetual and say that a more recurring license would be half that size, that might be the difference. So, you know, maybe it would be if revenues were flat, you may have 10% growth, that type of parameter.

Daniel Chan
Analyst, TD Securities
Okay. Thanks.

Operator

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

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

Hey Steve.

Steven Li
Analyst, Raymond James

Hey, thanks. Steve, just clarify, and I think I missed it. So if you were still under 605, did you say your enterprise revenues would have been down by 11%?

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

Well, that's taking the consideration that there would be no perpetual licenses. So that's what put you in that same spot. You see I can't make a - you can't make an easy conversion from perpetual to recurring. That's the difference.

Steven Li
Analyst, Raymond James

Right. Because so that comparison there is missing a perpetual license component that you might have had in Q1.

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

Correct.

Steven Li
Analyst, Raymond James

Okay. But I did hear you say it was down 11% under 605, if you had Q1 under 605?

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

Correct.

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

Under 606.

(Crosstalk)

Chris Lee
Vice President, Finance, BlackBerry Ltd.

11% under 606.

Steven Li
Analyst, Raymond James

So then Q1 '18 last year, if was under 606, then compared to this year you would be down 11%?

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

Yes.

Steven Li
Analyst, Raymond James

So then that would be a good comparison, right? Because then last year you would - any perpetual that was in last year's Q1 would not be - would be ratably recognized?

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

I think we're generalizing a number of parameters, because on perpetual - we sell something perpetual, the numbers are actually much higher than either single year or two years recurring. So, you know, so the ASP accounts in perpetuums are usually higher. So I think, you know, you can't really do the strict math so to speak because you're comparing a higher ASP to a lower ASP expectation but more recurring.

Steven Li
Analyst, Raymond James

Right. Okay. No. It makes sense. Okay. And then what is the impact on EBITDA, or is there any impact on EBITDA from 606?

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

It would be the EBITDA as we reported. So that would be 14%.

Steven Li
Analyst, Raymond James

Okay. No but converting from 605 to 606, is there any impact on EBITDA?

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

Not if you're considering the same revenue numbers. That's why they wouldn't be. We haven't tried to, you know, make a complete modification running through the P&L.

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

Yes. We can't really look at that - what the impact is. We know we have to report in 606. So didn't really calculate it down to the EBITDA.

Steven Li
Analyst, Raymond James

Okay. No worries. And then just my follow-up on - what was the contribution from Radar this quarter? And what was handheld devices of \$8 million? Thanks.

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

Well, the contribution of Radar is more because Radar numbers are small. Radar just happens to have, you know, continuous growth in their number and in the, you know, the number of trials and the number of wins and the repeat buy and so but compared to QNX obviously in the auto space, that's not a comparison. It's insignificant for that matter. And the handset with some of the contracts that we have signed, you know, have a, you know, a time for it to expire.

So once it's expired, then we have to reconcile, you know, kind of who owns who, what money and all that. And it so happened that we have it on our balance sheet something that could be released because of - because we have to because of the fact that the contract ended with one particular carrier that we have no more further obligation. So you see some of those, but even if

you see less and less going forward. And, you know, it would - it's definitely not something we should depend on or rely on at all.

Steven Li
Analyst, Raymond James

Okay. Very helpful. Thank you.

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

Okay. Sure.

Operator

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

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

Hi.

Yuuji Anderson:

Hi. This is Yuuji Anderson on for James actually. Thanks for taking my question.

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

Sure.

Yuuji Anderson
Analyst, Morgan Stanley & Co.

A question on the licensing business; for the rest of the year, how should we think about the mix between ramp up of devices versus say, you know, any incremental transactions that you might have in the pipeline?

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

Right now the IP or as I talked about last quarter, we're going to be a little bit better than a \$100 million run rate. Deals are all identified or maybe one or two smaller transactions that might come in and might not, but regardless of that, we expect to do a little better than \$100 million in that IP world. The rest come from - all come from licensing. And obviously, you know, you would see that that means you have to grow year-over-year.

Yuuji Anderson
Analyst, Morgan Stanley & Co.

Got it. Okay. That's helpful. And then just a quick question on gross margins. The sequential decline from last quarter is that just a function of the accounting change there or is there another variable that we should be thinking about?

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

Oh, it's really a function of the revenue. So the software revenue in 4 was higher than in Q1. And that's what really drove the margin difference.

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

But that's more seasonal...

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

Right.

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

...but that's more seasonal because, you know, our Q4 was a big quarter.

Yuuji Anderson
Analyst, Morgan Stanley & Co.

Okay. Got it. Thanks so much.

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

Sure.

Okay. Since we have to wrap up the call, I'd like to thank everybody for joining us today. And before I close the call, I'd like to mention our upcoming Security Summit. And, you know, given that in 2018 we had very high demand or fiscal year 2018, we had very high demand and attendance last year.

We're now again hosting two security summit events, the first one in London during September and the second one in New York during October. I look forward to seeing you all at the events. And thank you very much for your time. Have a great day.

Operator

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